

US\$400,000,000



Rede Empresas de Energia Elétrica S.A.
(incorporated in the Federative Republic of Brazil)
11.125% Perpetual Notes

Rede Empresas de Energia Elétrica S.A., or Rede, is offering US\$400,000,000 aggregate principal amount of 11.125% Perpetual Notes, or the notes. We will pay interest on the notes quarterly in arrears on January 2, April 2, July 2 and October 2 of each year, commencing on July 2, 2007.

The notes are perpetual notes with no fixed final maturity date and will not be subject to any mandatory redemption provisions. The notes will be repaid only in the event that we redeem or repurchase the notes or upon acceleration due to an event of default, as described under “Description of the Notes.” We may, at our option, redeem the notes, in whole but not in part, at 100% of their principal amount plus accrued interest and additional amounts, if any, on any interest payment date on or after April 2, 2012 or at any time upon the occurrence of specified events relating to Brazilian tax law as set forth in this prospectus.

The notes will be senior unsecured obligations of Rede, ranking equal in right of payment with all of its other existing and future senior unsecured debt. The notes will be effectively subordinated to Rede’s secured debt to the extent of the value of the assets securing such debt and structurally subordinated to all debt and other obligations of Rede’s subsidiaries.

Application has been made to list the notes on the Official List of the Luxembourg Stock Exchange and to trade the notes on the Euro MTF Market. Notes that are sold to qualified institutional buyers are expected to be designated as being eligible for trading in the Private Offerings, Resales and Trading through Automatic Linkages (PORTAL) market.

Investing in the notes involves risks that are described in the “Risk Factors” section beginning on page 14 of this prospectus.

The notes will initially be sold to investors at a price equal to 100.00% of the principal amount thereof, plus accrued interest, if any, from April 2, 2007, the closing date.

For a more detailed description of the notes, see “Description of the Notes” beginning on page 126.

The notes have not been registered under the U.S. Securities Act of 1933, as amended, or the Securities Act, or under the securities laws of any other jurisdiction. Unless they are registered, the notes may be offered only in transactions that are exempt from registration under the Securities Act or the securities laws of any other jurisdiction. Accordingly, we are offering the notes only to qualified institutional buyers pursuant to Rule 144A under the Securities Act, or Rule 144A, and to non-U.S. persons outside the United States in compliance with Regulation S under the Securities Act. For more information about restrictions on transfer of the notes, see “Notice to Investors” beginning on page 161.

The notes will be ready for delivery to purchasers in book-entry form through The Depository Trust Company and its direct and indirect participants, including Clearstream Banking, S.A. Luxembourg, or Clearstream Luxembourg, and Euroclear Bank S.A./N.V., as operator of the Euroclear System, on or about April 2, 2007.

Merrill Lynch & Co.

The date of this prospectus is April 23, 2007.

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You should rely only on the information contained in this prospectus. We have not, and the initial purchaser has not, authorized anyone to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. We are not, and the initial purchaser is not, making an offer to sell the notes in any jurisdiction where the offer or sale is not permitted. You should assume that the information appearing in this prospectus is accurate only as of the date on the front cover of this prospectus. Our business, financial condition, results of operations and prospects may have changed since that date.

In this prospectus, unless otherwise indicated or the context otherwise requires, all references to “our company,” “we,” “our,” “ours,” “us” or similar terms refer to Rede Empresas de Energia Elétrica S.A. together with its consolidated subsidiaries, and all references to “Rede” refer to Rede Empresas de Energia Elétrica S.A. alone.

We are relying on an exemption from registration under the Securities Act for offers and sales of securities that do not involve a public offering. By purchasing notes, you will be deemed to have made the acknowledgments, representations, warranties and agreements described under “Notice to Investors” in this prospectus. You should understand that you will be required to bear the financial risks of your investment for an indefinite period of time.

This prospectus has been prepared by the Issuer solely for use in connection with the proposed offering of the notes and may only be used for the purposes which it has been published. The Issuer, as well as lead managers, reserve the right to reject any offer to purchase, in whole or in part, for any reason, or to sell less than all of the notes offered by this prospectus.

We confirm that, after having made all reasonable inquiries, the information contained in this prospectus with regards to us is true and accurate in all material respects and that there are no omissions of any other facts from this prospectus which, by their absence herefrom, make this prospectus misleading in any material respect. We accept responsibility accordingly. This prospectus summarizes certain documents and other information and we refer you to

them for a more complete understanding of what we discuss in this prospectus. In making an investment decision, you must rely on your own examination of our company and the terms of the offering and the notes, including the merits and risks involved.

We are not making any representation to any purchaser of the notes regarding the legality of an investment in the notes by such purchaser under any legal investment or similar laws or regulations. You should not consider any information in this prospectus to be legal, business or tax advice. You should consult your own attorney, business advisor and tax advisor for legal, business and tax advice regarding an investment in the notes.

You should contact the initial purchaser with any questions about this offering or for additional information to verify the information contained in this prospectus.

Application has been made to admit the notes to listing on the Official List of the Luxembourg Stock Exchange and to trading on the Euro MTF market. This prospectus forms the prospectus for admission to the Luxembourg Stock Exchange. The Luxembourg Stock Exchange takes no responsibility for the contents of this prospectus, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus.

Neither the U.S. Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

NOTICE TO NEW HAMPSHIRE RESIDENTS

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF THE STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE OF THE STATE OF NEW HAMPSHIRE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY, OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER, OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

NOTICE TO RESIDENTS OF BRAZIL

The notes have not been, and will not be, registered with the *Comissão de Valores Mobiliários*, or the CVM, the Brazilian securities commission. Any public offering or distribution, as defined under Brazilian laws and regulations, of the notes in Brazil is not legal without such prior registration. Documents relating to the offering of the notes, as well as information contained therein, may not be supplied to the public in Brazil, as the offering of the notes is not a public offering of securities in Brazil, nor may they be used in connection with any offer for subscription or sale of the notes to the public in Brazil. The initial purchaser has agreed not to offer or sell the notes in Brazil, except in circumstances which do not constitute a public offering or distribution of securities under applicable Brazilian laws and regulations.

NOTICE TO RESIDENTS OF THE UNITED KINGDOM

The initial purchaser has represented and agreed that (1) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of The Financial Services and Markets Act of 2000, or the FSMA) received by it in connection with the issue or sale of any notes in circumstances in which section 21(1) of the FSMA does not apply to us; and (2) it has complied, and will comply, with all applicable provisions of the FSMA with respect to anything done by it in relation to the notes in, from or otherwise involving the United Kingdom.

NOTICE TO RESIDENTS OF THE EUROPEAN ECONOMIC AREA

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a “Relevant Member State”), the initial purchaser has represented and agreed that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the “Relevant Implementation Date”) it has not made and will not make an offer of the notes to the public in that Relevant Member State prior to the publication of a prospectus in relation to the notes which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, all in accordance with the Prospectus Directive, except that it may, with effect from and including the Relevant Implementation Date, make an offer of notes to the public in that Relevant Member State at any time (a) to legal entities which are authorized or regulated to operate in the financial markets or, if not so authorized or regulated, whose corporate purpose is solely to invest in securities; (b) to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than €43,000,000, and (3) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts; or (c) in any other circumstances which do not require the publication by the issuer of a prospectus pursuant to Article 3 of the Prospectus Directive. For the purposes of this provision, the expression an “offer of notes to the public” in relation to any notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the notes to be offered so as to enable an investor to decide to purchase or subscribe the notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression Prospectus Directive means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

NOTICE TO RESIDENTS OF FRANCE

This document is furnished to you solely for your information and may not be reproduced or redistributed to any other person. This document does not constitute an offer or an invitation to subscribe for or to purchase any securities and neither this document nor anything contained herein shall form the basis of any contract or commitment whatsoever. This paragraph is applicable only to residents of France.

This document may not be distributed to the public in France or used in connection with any offer for subscription or sale of securities in France other than in accordance with article L-411-2 of the Code Monétaire et Financier and Décret no. 98-880 dated October 1, 1998. This document has not been submitted to the *Autorité des Marchés Financiers* for approval and does not constitute an offer for sale or subscription of securities.

NOTICE TO RESIDENTS OF HONG KONG

The initial purchaser has represented and agreed that (1) it has not offered or sold, and will not offer or sell, in Hong Kong, by means of any document, any notes units other than to persons whose ordinary business is to buy or sell shares or debentures, whether as principal or agent, or in circumstances which do not constitute an offer to the public within the meaning of the Companies Ordinance (Cap. 32) of Hong Kong and (2) it has not issued, or had in its possession for the purpose of issue, and will not issue, or have in its possession for the purpose of issue, whether in Hong Kong or elsewhere, any invitation, document or advertisement relating to the notes units, which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the

securities laws of Hong Kong) other than with respect to notes units which are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” within the meaning of the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made under that Ordinance.

NOTICE REGARDING SINGAPORE OFFERING

This prospectus has not been registered as a prospectus with the Monetary Authority of Singapore, or the MAS, and the notes are offered in Singapore pursuant to exemptions invoked under section 274 and/or section 275 of the Securities and Futures Act (chapter 289) of Singapore, or the SFA. Accordingly, each of the initial purchasers has represented and agreed that it will not offer or sell the notes nor make the notes the subject of an invitation for subscription or purchase, nor will it circulate or distribute this prospectus or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the notes, whether directly or indirectly, to the public or any member of the public in Singapore other than (a) to an institutional investor or other person specified in section 274 of the SFA, (b) to a sophisticated investor, and in accordance with the conditions, specified in section 275 of the SFA or (c) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

U.S. INTERNAL REVENUE SERVICE CIRCULAR 230 DISCLOSURE

PURSUANT TO U.S. INTERNAL REVENUE SERVICE CIRCULAR 230, WE HEREBY INFORM YOU THAT THE DESCRIPTION SET FORTH HEREIN WITH RESPECT TO U.S. FEDERAL TAX ISSUES WAS NOT INTENDED OR WRITTEN TO BE USED, AND SUCH DESCRIPTION CANNOT BE USED, BY ANY TAXPAYER FOR THE PURPOSE OF AVOIDING ANY PENALTIES THAT MAY BE IMPOSED ON THE TAXPAYER UNDER THE U.S. INTERNAL REVENUE CODE. SUCH DESCRIPTION WAS WRITTEN TO SUPPORT THE MARKETING OF THE NOTES. TAXPAYERS SHOULD SEEK ADVICE BASED ON THE TAXPAYER’S PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.

FORWARD-LOOKING STATEMENTS

This prospectus includes forward-looking statements that are subject to risks and uncertainties, in particular in the “Summary,” “Risk Factors,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” “The Brazilian Electric Power Industry” and “Business” sections. These statements are based on current expectations and projections about future events and financial trends that affect or may affect our business. Several factors may adversely affect our estimates and assumptions, including, but not limited to:

- general economic, political, demographic, hydrological and business conditions in Brazil and particularly in our concession areas;
- the levels of exchange rates between Brazilian and foreign currencies and any devaluation of the *real*;
- the growth of the Brazilian electricity industry as a whole;
- our ability to execute our business strategy, including our growth strategy;
- our ability to carry out any acquisitions or to increase our ownership interests in our principal subsidiaries;
- our ability to implement our capital expenditure plans;
- changes in existing and future governmental regulation of the electric sector;
- changes in electricity tariffs and taxes;
- penalties for any failure to comply with our electricity distribution and generation concessions or early termination of those concessions;
- our inability to generate sufficient electricity due to water shortages, transmission outages, operating or technical problems or physical damage to our facilities;
- increased electricity losses;
- our ability to forecast correctly the electricity needs of our distribution concession areas;
- increased competition in the Brazilian power industry;
- changes in consumer demand for electricity;
- interruption in the supply of electricity;
- fluctuations in fuel prices;
- the cost and availability of financing;
- our ability to comply with the terms and conditions of our financing agreements; and
- other risk factors discussed under “Risk Factors” beginning on page 14.

Words such as “believe,” “may,” “can,” “seek,” “estimate,” “continue,” “anticipate,” “intend,” “expect” and other similar words are used in this prospectus to identify forward-looking statements. These forward-looking statements include information concerning results and projections, strategy, funding plans, competitive position, the electricity sector environment, potential opportunities for growth, the effects of future regulations and the effects of competition. In light of the risks and uncertainties described herein, the forward-looking statements included in this prospectus may not prove accurate. Given such limitations, investors should not make any decision to invest in the notes on the basis of the forward-looking statements contained herein. The forward-looking statements included herein are made only as of the date of this prospectus, and we do not undertake any obligation to release publicly any revisions to those forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

PRESENTATION OF FINANCIAL AND CERTAIN OTHER INFORMATION

In this prospectus, all references to “*real*,” “*reais*” or “R\$” are to the Brazilian *real*, the official currency of Brazil. All references to “U.S. dollar,” “dollars” or “US\$” are to U.S. dollars, the official currency of the United States of America.

On March 28, 2007, the PTAX-800 exchange rate for *reais* into dollars was R\$2.071 to US\$1.00. The PTAX-800 exchange rate is the weighted average of all rates traded on the commercial market during a given day, as calculated by the Central Bank of Brazil (*Banco Central do Brasil*), or the Central Bank, at market close. The PTAX-800 exchange rate was R\$2.138 to US\$1.00 as of December 29, 2006, R\$2.340 to US\$1.00 as of December 30, 2005, and R\$2.654 to US\$1.00 as of December 31, 2004. The *real*/dollar exchange rate fluctuates widely, and the PTAX-800 exchange rate as of March 28, 2007 may not be indicative of future exchange rates. See “Exchange Controls and Foreign Exchange Rates” for information regarding exchange rates for the Brazilian currency since January 1, 2002.

Solely for the convenience of the reader, we have translated certain amounts included in “Summary—Summary Financial and Other Information,” “Capitalization,” “Selected Financial and Other Information” and elsewhere in this prospectus from *reais* into dollars using the PTAX-800 exchange rate as reported by the Central Bank as of December 29, 2006 of R\$2.138 to US\$1.00. These translations should not be considered representations that any such amounts have been, could have been or could be converted into U.S. dollars at that or at any other exchange rate as of that or any other date.

Financial Statements and Financial Information

We maintain our books and records in *reais*.

Our consolidated financial statements as of December 31, 2006 and 2005 and for the years ended December 31, 2006, 2005 and 2004 have been audited by BDO Trevisan Auditores Independentes, or BDO Trevisan, as stated in their report appearing herein, and are included elsewhere in this prospectus.

We prepare our consolidated financial statements and financial information in accordance with accounting practices adopted in Brazil, or Brazilian GAAP, which are based on:

- Brazilian Law No. 6,404/76, as amended by Brazilian Law No. 9,457/97 and Brazilian Law No. 10,303/01, which we refer to collectively as the Brazilian Corporation Law;
- the rules and regulations of the Brazilian Securities Commission (*Comissão de Valores Mobiliários*), or the CVM;
- the accounting methodology of the Brazilian National Electric Energy Agency (*Agência Nacional de Energia Elétrica*), or ANEEL; and
- the technical releases issued by the Institute of Independent Auditors of Brazil (*Instituto de Auditores Independentes do Brasil*), or IBRACON.

Brazilian GAAP differs in certain significant respects from accounting principles generally accepted in the United States, or U.S. GAAP. For a discussion of the principal differences between Brazilian GAAP and U.S. GAAP as they relate to our financial statements, see Annex A— “Summary of Certain Differences Between U.S. GAAP and Brazilian GAAP.”

Although Rede does not own the majority of the outstanding share capital of some of our subsidiaries, we fully consolidate the results of operations of these companies, including Centrais Elétricas Matogrossenses S.A.—CEMAT, or CEMAT, and Centrais Elétricas do Pará S.A.—CELPA, or CELPA, by recording an adjustment to reflect the interests of minority shareholders in the “Minority interest” line item of our income statement, as required by Brazilian GAAP.

We calculate Adjusted EBITDA, a performance measure used by our management, as our net income (loss), plus minority interest, financial income (expenses), net, non-operating income (expenses), net, income tax and social contribution and deferred tax credits, equity in the results of subsidiaries, extraordinary items, net of tax effect, and depreciation and amortization.

Our management believes that Adjusted EBITDA provides a useful measure of our performance. In making such comparison, however, you should bear in mind that Adjusted EBITDA is not a recognized measure under Brazilian GAAP and that because not all companies use identical calculations, our presentation of Adjusted EBITDA may not be comparable to other similarly titled measures or to free cash flow for our discretionary use. Adjusted EBITDA should not be considered as an alternative to net income (loss) as an indicator of our operating performance, or as an alternative to cash flow as an indicator of liquidity. In addition, our Adjusted EBITDA is presented on a consolidated basis and, therefore, includes 100% of the Adjusted EBITDA of our consolidated subsidiaries, although our interest in several is less than 50%. We also have not calculated Adjusted EBITDA in accordance with guidelines adopted by the United States Securities and Exchange Commission on presentation of non-GAAP financial measures. For a reconciliation of Adjusted EBITDA to net income, see footnote (3) to the table presented in “Selected Financial and Other Information.”

Share Split

On July 25, 2006, Rede authorized the split of all of its issued common and preferred shares into five shares for each issued share. This share split was effective on July 31, 2006. All references to numbers of shares in this prospectus and our financial statements included herein have been adjusted to give effect to this five-to-one-share split.

Market Share and Other Information

This prospectus includes information from third-party sources that we believe are reliable, such as ANEEL, the Brazilian Association of Electric Energy Distributors (*Associação Brasileira de Distribuidores de Energia Elétrica*), or ABRADÉE, the Brazilian Association of Electric Energy Concessionaires (*Associação Brasileira de Concessionárias de Energia Elétrica*), or ABCÉE, the Latin American Energy Organization (*Organización Latinoamericana de Energia*), or OLADE, the Brazilian Institute of Geography and Statistics (*Instituto Brasileiro de Geografia e Estatística*), or IBGE, and the Central Bank, among others. Although we have no reason to believe that any of this information is inaccurate in any material respect, we have not independently verified this information provided by third parties or by industry or general publications.

Technical and Other Terms

As used in this prospectus, references to “GW” and “GWh” are to gigawatts and gigawatt hours, respectively; “MW” and “MWh” are to megawatts and megawatts hours, respectively; “kW” and “kWh” are to kilowatts and kilowatt-hours, respectively; “kV” and “kVA” are to kilovolts and kilovolt-amperes, respectively; and “km²” are to square kilometers. Unless otherwise indicated, statistics provided throughout this prospectus with respect to electricity facilities are expressed in MW, in the case of the nominal capacity of such facilities, and in GWh, in the case of the aggregate electricity production of such facilities. One GW=1,000 MW, and one MW=1,000 kW. Statistics relating to aggregate annual electricity production and distribution are expressed in GWh and are based on a year of 8,760 hours. “Nominal capacity” means the total amount of nominal capacity in any company or system. Certain of the technical terms and Brazilian electric power industry-related terms used in this prospectus are defined in Annex B—“Glossary of Terms.”

Rounding

We have made rounding adjustments to reach some of the figures included in this prospectus. As a result, numerical figures shown as totals in some tables may not be an arithmetic aggregation of the figures that preceded them.

SUMMARY

This summary highlights some of the information in this prospectus. Because this is a summary, it does not contain all of the information that you should consider before deciding to purchase the notes. You should carefully read this entire prospectus, including “Risk Factors”, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our consolidated financial statements.

In this prospectus, unless otherwise indicated or the context otherwise requires, (1) the terms “our company,” “we,” “our,” “ours,” “us” or similar terms refer to Rede Empresas de Energia Elétrica S.A. together with its consolidated subsidiaries, (2) the term “Rede” refers to Rede Empresas de Energia Elétrica S.A. alone, (3) the term “CEMAT” refers to Centrais Elétricas Matogrossenses S.A.—CEMAT, (4) the term “CELPA” refers to Centrais Elétricas do Pará S.A.—CELPA, and (5) the term “CELTINS” refers to Companhia de Energia Elétrica do Estado do Tocantins—CELTINS.

Overview

Rede is a Brazilian electricity holding company and, through its subsidiaries, engages in the distribution, generation and trading of electricity in Brazil. Our combined concession areas are geographically the largest in Brazil, covering approximately 30% of Brazil’s land mass and with a total combined population of approximately 12.5 million. We currently supply electricity to approximately 3.0 million customers in 506 municipalities in six Brazilian states. In 2006, we distributed 13,081 GWh of energy and recorded net income of R\$88.5 million and gross operating revenue of R\$4,775.1 million. As of December 31, 2006, our total assets were R\$9,002.8 million.

Our principal business activity is the distribution of electricity through CEMAT, CELPA, CELTINS, and five additional companies that comprise our REDE SUL/SUDESTE operating unit. Our generation activities complement our electricity distribution activities and are carried out through our equity ownership interests in the Luís Eduardo Magalhães hydroelectric plant (*Usina Hidrelétrica Luís Eduardo Magalhães*), or the Lajeado hydroelectric plant, and the Guaporé hydroelectric plant (*Usina Hidrelétrica de Guaporé*), or the Guaporé hydroelectric plant. In addition, our distribution companies own and operate 42 small thermoelectric plants. We also conduct electricity trading operations through our subsidiary Rede Comercializadora de Energia S.A., or REDECOM, and provide engineering design and construction services through our subsidiary Rede Electricidade e Serviços S.A., or REDESERV.

Distribution Business

In 2006, our electricity distribution operations accounted for 98.1% of our gross operating revenue on a consolidated basis. The vast majority of the gross operating revenue and electricity sales volumes of our distribution operations is derived from sales of electricity at regulated tariffs to customers that are prohibited under Brazilian law from acquiring electricity from another source, or captive customers. During 2006, sales to captive customers at regulated tariffs represented 96.6% of our volume of electricity distributed and 99.1% of our gross operating revenue from distribution operations. In addition, the number of large customers who may elect to opt out of our regulated distribution systems, or potentially free customers, and which may acquire electricity from our competitors, is low relative to the total number of our captive customers. During 2006, approximately 3.4% of our electricity sales by volume were to potentially free customers.

Our distribution business involves the generation or purchase and sub-transmission of high voltage electricity (between 138kV and 69kV), its transformation into medium and low voltages and its distribution and sale to end-users. Our distribution business is subject to electricity distribution concession agreements and to comprehensive regulation by ANEEL, a Brazilian federal governmental regulatory agency, and the Brazilian Ministry of Mines and Energy (*Ministério de Minas e Energia*), or the MME. For further information regarding the regulation of the Brazilian electric power industry, see “The Brazilian Electric Power Industry.”

CEMAT

CEMAT is the sole electricity distribution concessionaire in the state of Mato Grosso, Brazil’s third largest state by area, covering approximately 10.6% of Brazil’s land mass, with a concession agreement that expires in 2027 and may be renewed for 30 years upon our request. CEMAT’s concession area covers approximately 903,000 square kilometers, including 141 municipalities with a total population of approximately 2.8 million. In 2006, CEMAT sold 3,982 GWh of electricity to approximately 828,000 customers. In addition to its extensive distribution network, CEMAT owns 25 thermoelectric power plants with a total installed capacity of 44.6 MW. Rede owns 37.5% of the total share capital of CEMAT, including 57.5% of its voting share capital.

CELPA

CELPA is the sole electricity distribution concessionaire in the state of Pará, Brazil's second largest state by area, covering approximately 14.7% of Brazil's land mass, with a concession agreement that expires in 2028 and may be renewed for 30 years upon our request. CELPA's concession area covers approximately 1.2 million square kilometers, including 143 municipalities with a total population of approximately 7.0 million. In 2006, CELPA sold 4,739 GWh of electricity to approximately 1.4 million customers. In addition to its extensive distribution network, CELPA owns 17 thermoelectric power plants with a total installed capacity of 22.2 MW. Rede owns, directly and indirectly, 43.4% of the total share capital of CELPA, including 65.2% of its voting share capital.

CELTINS

CELTINS is the sole electricity distribution concessionaire in the state of Tocantins, covering approximately 3.3% of Brazil's land mass, with a concession agreement that expires in 2020 and may be renewed for 20 years upon our request. CELTINS's concession area covers approximately 278,000 square kilometers, including 139 municipalities with a total population of approximately 1.3 million. In 2006, CELTINS sold 964 GWh of electricity to approximately 345,000 customers. Rede owns 50.9% of the total share capital of CELTINS, including 70.0% of its voting share capital.

REDE SUL/SUDESTE

Our REDE SUL/SUDESTE operating unit is comprised of the following companies that operate in various municipalities or regions within the states of São Paulo, Minas Gerais and Paraná, which we manage together as one operating unit:

- Empresa de Distribuição de Energia Vale Parapanema S.A., or EDEVP, with a concession area that covers 11,531 square kilometers, including 27 municipalities in the western portion of the state of São Paulo, with a total population of approximately 422,000. EDEVP is Rede's wholly owned subsidiary.
- Caiuá Distribuição de Energia S.A., or Caiuá, with a concession area that covers 10,309 square kilometers, including 24 municipalities in the state of São Paulo, with a total population of approximately 547,000. Caiuá is Rede's wholly owned subsidiary.
- Companhia Nacional de Energia Elétrica, or Nacional, with a concession area that covers 4,794 square kilometers, including 15 municipalities near Catanduva, São Paulo, with a total population of approximately 255,000. Rede owns 98.7% of the total share capital of Nacional, including 100% of its voting share capital.
- Empresa Elétrica Bragantina S.A., or Bragantina, with a concession area that covers 3,500 square kilometers, including 15 municipalities in the states of São Paulo and Minas Gerais, with a total population of approximately 297,000. Rede owns 91.5% of the total share capital of Bragantina, including 96.4% of its voting share capital.
- Companhia Força e Luz do Oeste, or Força e Luz do Oeste, with a concession area that covers 3,115 square kilometers, including the municipality of Guarapava in the state of Paraná, with a total population of approximately 167,000. Rede owns 97.7% of the total share capital of Força e Luz do Oeste, including 97.7% of its voting share capital.

The concession agreements of these companies expire in 2015 and may be renewed for 20 years upon our request. In 2006, these companies sold an aggregate of 2,747 GWh of electricity to approximately 587,000 customers.

Generation Business

In 2006, our electricity generation operations accounted for 7.3% of our gross operating revenue (prior to intercompany eliminations), and include:

- Rede's indirect ownership of 20.2% of the total share capital, including 42.4% of the voting share capital, of Investco S.A., or Investco, the leader of the consortium that owns the concession for the Lajeado hydroelectric plant. As a result of our investment in Investco, we are entitled to 45.4% of the total electricity generated by the Lajeado hydroelectric plant, located on the Tocantins River, with a total installed capacity of 902.5 MW.

- Rede's direct ownership of 61.7% of the total share capital, including 100% of the voting share capital, of Tangará Energia S.A., or Tangará, which owns 64.0% of the concession to operate the Guaporé hydroelectric plant. As a result of our investment in Tangará, we are entitled to 64.0% of the total electricity generated by the Guaporé hydroelectric plant, located on the Guaporé River, with a total installed capacity of 120.0 MW.

On September 21, 2006, we sold our subsidiary Celtins Energética S.A., which owned three small hydroelectric plants (*pequenas centrais hidrelétricas*), or PCHs, with a combined installed capacity of 15.4 MW, to Tocantins Holdings, Ltda., a Brazilian company affiliated with the BRENNAND Group, for R\$33.9 million. On June 8, 2006, we entered into an agreement to sell 10 of our subsidiaries, as well as our interests in Quatiara Energia S.A. and Vale Energética S.A., which collectively owned 22 additional PCHs with a combined total installed capacity of 96.3 MW, to Enel Latin América LLC for an aggregate amount of R\$463.6 million. This transaction closed on October 6, 2006, other than the sale of one of these subsidiaries, Juruena Energia S.A., the purchase of which is conditioned on a final decision in a civil action pending against Juruena Energia S.A. Following the sale of Juruena Energia S.A., we will no longer have any interests in PCHs. For more information related to these transactions, see "History and Corporate Reorganization."

Trading and Other Businesses

REDECOM conducts electricity trading operations and is focused on serving "free customers" both inside and outside the concession areas of our electricity distribution companies. "Free customers" are certain industrial and other large customers that are permitted under current Brazilian regulations to select their electricity supplier. REDECOM recorded gross operating revenue of R\$163.4 million and net income of R\$14.7 million in 2006.

REDESERV provides services related to the engineering design and construction of substations and other assets used in providing electricity services. REDESERV recorded gross operating revenue of R\$10.9 million and net income of R\$0.3 million in 2006.

Strengths

We believe that our major strengths include the following:

- *High Growth Potential of our Concession Areas.* We distribute most of our electricity in regions of Brazil that have been growing at faster rates than the Brazilian national average, which we believe provides us with opportunities to increase our organic growth. Electricity consumption in the states of Pará, Mato Grosso and Tocantins, where we generate 79.9% of our gross operating revenue and 37.4% of our net income, increased by an average of 6.1%, 7.8% and 7.4%, respectively, from 2001 to 2006, which is significantly higher than the 4.2% increase in the Brazilian national annual average rate of electricity consumption during the same period. We also believe that government subsidized programs to promote increased access to electricity services to rural and undeveloped areas, such as the Light for All Program (*Programa Luz Para Todos*), which is expected to add approximately 356,000 new customers by its conclusion, and other similar federal and state programs, contribute to offer additional opportunities for significant growth. Since 1998, we have added approximately 1.0 million new customers to our distribution network, representing a 57.6% increase. We have a proven track record of identifying and implementing electricity service solutions for expansive areas with low population densities and, as a result, we believe we are capable of responding to these opportunities and maintaining our high rates of organic growth in new customers.
- *Operating Efficiency and Quality of Service.* We believe that we adhere to high operating standards in rendering electricity services. The principal operating performance indicators of our distribution companies have improved over the last few years. Our productivity, as measured by our number of customers per employee, increased to 566 customers per employee in 2006 from 537 customers per employee in 2005 and 465 customers per employee in 2004. We generally use two indices to measure our quality of service: (1) duration of interruption, or DEC, which reflects the average time of power outage per customer (taking into account only interruptions of at least one minute); and (2) frequency of interruption, or FEC, which reflects the average number of interruptions per customer (also taking into account only interruptions of at least one minute). Although these indicators have stabilized over the last two or three years, from 1998 through 2006, the DEC of CELPA, CEMAT and CELTINS improved by 59.9%, 60.8% and 40.3%, respectively, and the FEC of these companies improved by 43.5%, 73.8% and 66.5%, respectively. The levels of these indices are below the limits established by ANEEL for each of our distribution companies based on their unique characteristics, other than CELPA which exceeded its DEC target in 2005 and 2006 and exceeded its FEC target in 2006. We believe that

our operating efficiency provides us with a positive image in relation to our customers and a good working relationship with ANEEL, each of which assist us in expanding our business.

- *Significant Experience in the Reorganization and Restructuring of Companies Facing Difficulties.* Since we commenced our expansion process in the 1980s, we have accumulated significant experience in the acquisition, reorganization and restructuring of companies facing operating and financial difficulties, particularly in the electricity distribution sector. We successfully applied this experience upon assuming control of CELPA, CEMAT and CELTINS, in which we made significant operational and financial improvements by identifying and implementing appropriate solutions based on the characteristics of these expansive concession areas with a low population density. We believe that this experience is an important competitive advantage and will assist us in continuing to successfully expand our activities as we implement our acquisition strategy.
- *Strong Commitment to and Experience in the Brazilian Electricity Sector.* Our company commenced its activities in the electricity sector in 1903 with the creation of Bragantina. Since then, we have maintained our commitment to the Brazilian electricity sector. In 1989, we acquired CELTINS, the first government-owned electricity distribution company to be privatized in Brazil. Our senior management has, on average, more than 20 years of experience in the Brazilian electricity sector.
- *Experience in the Development and Operation of Generation Projects.* We have significant experience in developing and operating hydroelectric power plant projects. We have developed and operated more than 32 small- and medium-sized plants over the last 20 years. In addition, we developed, built and operate the Lajeado hydroelectric plant, with a total installed capacity of 902.5 MW. With the commencement of operations of the Lajeado hydroelectric plant in December 2001, we were the first private-sector group to develop a large integrated hydroelectric power plant project from the feasibility study stage through operation. We believe that this experience is an important competitive advantage and will assist us in developing and selling additional PCHs.

Strategy

The following are key elements of our strategy:

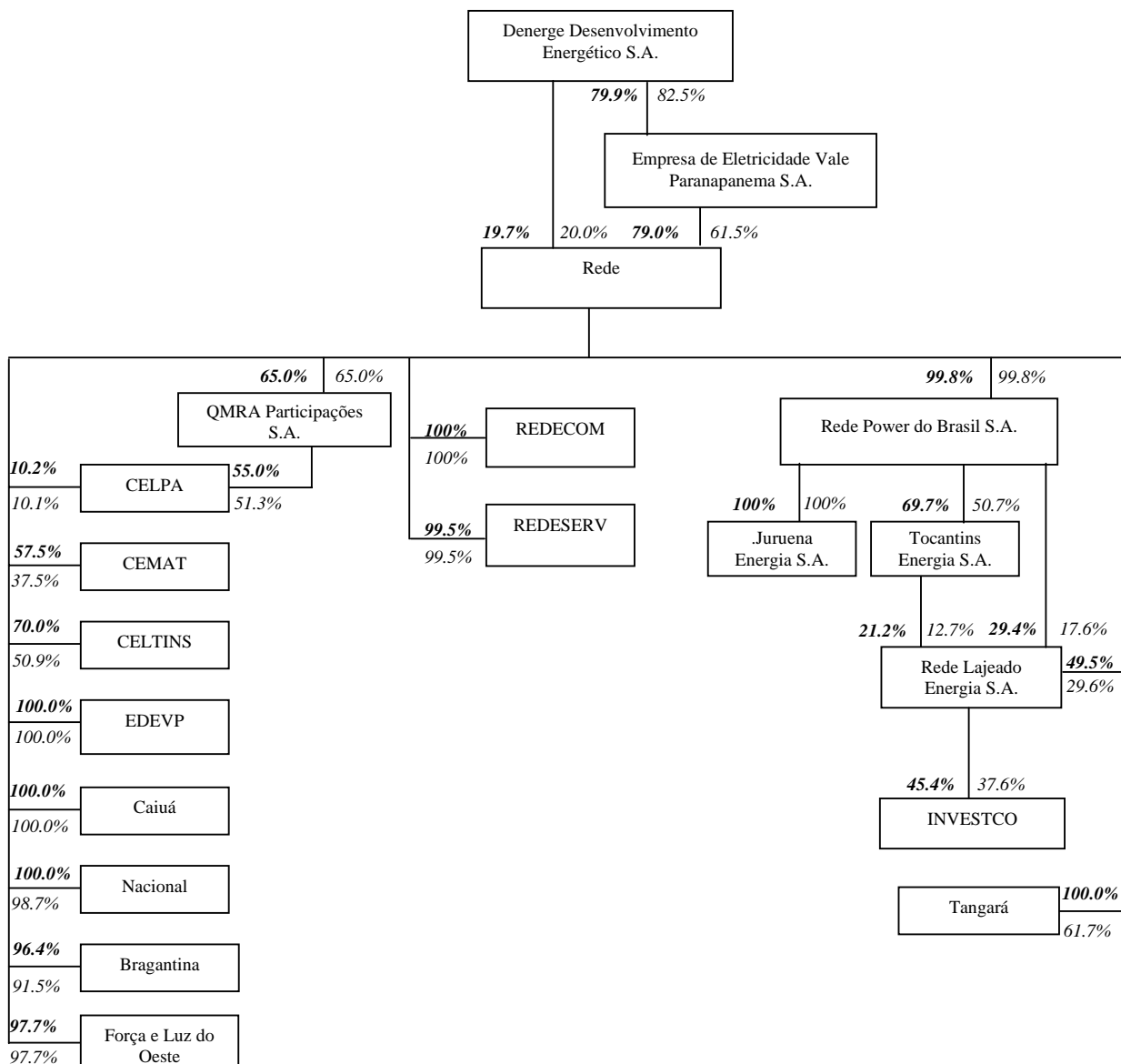
- *Expand Our Customer Base.* We intend to take advantage of the high-growth potential of our concession areas to attract new customers to our distribution network by investing in the expansion and modernization of our distribution systems. In addition, we believe that our governmental incentive programs, particularly the Rural Lighting Program (which preceded the Light for All Program) and the Light for All Program, provide an excellent opportunity to maximize the growth potential of our concession areas and expand our customer base.
- *Further Reduce Electricity Losses.* Since 1998, we have adopted a comprehensive plan aimed at reducing electricity losses, including repairing electricity meters to reduce reading flaws and implementing measures to reduce tampering and illegal connections. Our electricity losses decreased from 22.3% in 1998 to 18.5% in 2006, below the average loss rates for the Northern and Midwestern regions of Brazil where we operate. However, despite this overall reduction, our electricity losses remain higher than the national average. Due to difficulties in obtaining financing to fund our investments during the period following the Rationing Program, we decreased the level of our investments to reduce electricity losses, which resulted in increased losses beginning in 2004. However, we intend to increase our investments in the expansion and improvement of our program to reduce electricity losses further and thereby improve our cost structure.
- *Increase Technical and Operating Efficiency.* We recently implemented a corporate restructuring that we believe will allow us to further integrate our distribution activities over time and reduce our administrative and operational costs. We are also implementing new technologies to assist us in managing our operations and to improve our operating efficiencies, including a new system for communicating service orders that uses handheld devices equipped with global positioning technology, which we believe will significantly decrease the amount of time it takes us to service our distribution system. We believe that if we continue to make additional investments in processes that increase the operating and technical efficiency of our services, we will be able to further decrease our administrative costs and operating expenses while improving customer satisfaction and revenue collection.
- *Consolidate and Expand our Distribution Activities through Acquisitions with Growth Potential.* We intend to utilize our administrative and operational experience, which we obtained through the acquisition, restructuring

and integration of our distribution companies, to consolidate and further expand our distribution activities through acquisitions that have a high growth potential and projected return on our investment. We plan to evaluate opportunities to acquire equity interests in distribution companies, including acquiring additional equity in our existing concessionaries.

- *Investment in Selective Small- and Medium-Sized Generation Projects.* We intend to invest in selective small- and medium-sized electricity generation projects, particularly through the construction of small- and medium-sized hydroelectric power plants in light of our significant experience in evaluating, designing, constructing, operating and selling hydroelectric power plants.
- *Expand and Strengthen our Electricity Trading Activities.* We intend to expand and strengthen our electricity trading activities through REDECOM, as these activities represent an important opportunity for us to maintain the loyalty of our customers, particularly free consumers and those that are located outside our concession areas, thereby enabling us to increase our customer base and gross operating revenue.
- *Further Solidify our Financial and Capital Structure.* We intend to improve our capital structure by extending the maturity profile and reducing the average interest rate that we pay on our outstanding indebtedness in order to successfully implement the strategies set forth above.

Our Corporate Structure

Rede is a holding company that invests in the Brazilian electric power industry. The following chart represents our corporate structure as of December 31, 2006 (percentages in bold and italics represent percentage of voting share capital and percentages in italics represent percentage of total share capital):



Our principal executive offices are located at Avenida Paulista, No. 2439, 5th Floor, 01311-936, São Paulo, SP, Brazil. Our telephone number is (55-11) 3066-2000, and our facsimile number is (55-11) 3060-9568. We maintain a website at www.gruporede.com.br. Information on this website is not incorporated into this prospectus and should not be relied upon in determining whether to make an investment in the notes.

THE OFFERING

The following is a brief summary of some of the terms of this offering. For a more complete description of the terms of the notes, see “Description of the Notes”. Terms which are defined in other sections of the prospectus have the same meaning when used in this summary.

Issuer	Rede Empresas de Energia Elétrica S.A.
Notes Offered	US\$400,000,000 aggregate principal amount of 11.125% Perpetual Notes.
Issue Price	100.00% of the principal amount of the notes.
Maturity Date	The notes are perpetual notes with no fixed final maturity date and have sinking fund provisions only upon the occurrence of certain events.
Interest	Interest will accrue on the notes at the annual rate of 11.125% from the original date of issuance under the indenture and will be payable quarterly in arrears each January 2, April 2, July 2 and October 2, commencing on July 2, 2007.
Ranking	<p>The notes will be senior unsecured obligations of Rede ranking:</p> <ul style="list-style-type: none"> • equal in right of payment to other existing and future senior unsecured debt of Rede (except those obligations preferred by operation of law); • senior in right of payment to any subordinated debt of Rede; and • effectively subordinated to debt and other liabilities (including subordinated debt and trade payables) of Rede’s subsidiaries and to secured debt of Rede to the extent of such security. • As of December 31, 2006, Rede had an aggregate amount of R\$600.6 million of secured indebtedness outstanding and an aggregate amount of R\$278.1 million of unsecured indebtedness outstanding. • As of December 31, 2006, Rede’s subsidiaries had an aggregate amount of R\$1,904.0 million of indebtedness outstanding.
Interest Reserve Account	On or prior to the Closing Date, Rede will establish a separate U.S. dollar-denominated account (the “Interest Reserve Account”) in the State of New York over which the Trustee will have sole and exclusive control and exclusive right of withdrawal, and will Fully Fund the Interest Reserve on the Closing Date by either (i) delivering to the Trustee one or more direct-pay irrevocable 180-day or 364-day letters of credit in favor of the Trustee, and/or (ii) depositing into the Interest Reserve Account cash or cash equivalents, in an amount sufficient to provide for the payment in full of the next three succeeding scheduled interest payments on the notes. All right, title and interest in and to all amounts on deposit from time to time in the Interest Reserve Account will be held by the Trustee for the benefit of the holders of the Notes. See “Description of the Notes—Interest Reserve.”

Optional Redemption	We may, at our option, redeem the notes, in whole but not in part, at 100% of their principal amount plus accrued interest and additional amounts, if any, on any Interest Payment Date on or after April 2, 2012.
Optional Tax Redemption	We may redeem the notes, in whole but not in part, at 100% of their principal amount plus accrued interest and additional amounts, if any, upon the occurrence of specified events relating to Brazilian tax law. See “Description of the Notes — Optional Tax Redemption.”
Additional Amounts	Payments of interest on the notes will be made after withholding and deduction for any Brazilian taxes as set forth under “Taxation.” Rede will pay such additional amounts as will result in receipt by the holders of notes of such amounts as would have been received by them had no such withholding or deduction for Brazilian taxes been required, subject to certain exceptions set forth under “Description of the Notes—Additional Amounts.”
Covenants	<p>The indenture governing the notes will contain certain covenants that, among other things, will limit our ability to:</p> <ul style="list-style-type: none"> • incur additional indebtedness; • sell the shares of CELPA or CELTINS; • engage in transactions with our affiliates; • create limitations on the ability of our significant subsidiaries to pay dividends or make other payments to Rede; and • consolidate, merge or transfer all or substantially all our assets. <p>These covenants are subject to a number of important qualifications and exceptions. See “Description of the Notes—Restrictive Covenants.”</p>
Events of Default	The indenture governing the notes will set forth the events of default applicable to the notes, including an event of default triggered by cross-acceleration of other debt in an amount of US\$40 million or more. For a discussion of certain events of default that will permit acceleration of the principal of the notes plus accrued interest, see “Description of the Notes—Events of Default.”
Further Issuances	We may, from time to time, without notice to or consent of the holders of the notes, create and issue an unlimited principal amount of additional notes of the same series as the notes initially issued in this offering, subject to satisfaction of the conditions set forth in the indenture.
Use of Proceeds	The net proceeds to Rede from the sale of the notes, after deducting the initial purchaser’s discounts and commissions (excluding general expenses payable by us in respect of this offering), will be US\$386.5 million and will be used to repay short-term and long-term indebtedness of Rede and for general corporate purposes.

Form and Denomination	The notes sold in the United States in reliance on Rule 144A will be evidenced by a fully registered note in global form without interest coupons called a restricted global note, which will be deposited with a custodian for, and registered in the name of a nominee of, The Depository Trust Company, or DTC. The notes sold outside the United States in reliance on Regulation S will be evidenced by a separate fully registered note in global form without interest coupons called a Regulation S global note, which also will be deposited with a custodian for, and registered in the name of a nominee of, DTC. Transfers of beneficial interests between the restricted global note and the Regulation S global note are subject to certification requirements. The notes will be issued in fully registered form in denominations of US\$2,000 and integral multiples of US\$1,000 in excess thereof. See “Description of the Notes—General” and “—Form and Registration.”
Notice to Investors	The notes have not been registered under the Securities Act and are subject to limitations on transfers, as described under “Notice to Investors.”
Listing of the Notes	Application has been made to admit the notes to listing on the Official List of the Luxembourg Stock Exchange and to trade the notes on the Euro MTF market. The notes that are sold to qualified institutional buyers are expected to be eligible for trading in the PORTAL Market.
Designations of the Notes	For the Restricted Global Notes, the ISIN number is US75734PAA75, the Common Code is 029488061 and the CUSIP number is 75734PAA7. For the Regulation S Global Notes, the ISIN number is USP8001VAD84, the Common Code is 029488126 and the CUSIP number is P8001VAD8.
Governing Law	The indenture and the notes will be governed by, and will be construed in accordance with, the laws of the State of New York.
Trustee, Registrar and Transfer Agent	The Bank of New York
Principal Paying Agent	The Bank of Tokyo-Mitsubishi UFJ, Ltd.
Luxembourg Paying Agent and Transfer Agent	The Bank of New York (Luxembourg) S.A.
Luxembourg Listing Agent	The Bank of New York (Luxembourg) S.A.
Risk Factors	See “Risk Factors” and the other information in this prospectus for a discussion of factors you should carefully consider before deciding to invest in the notes.
ERISA and Certain Other Considerations	See “ERISA and Certain Other Considerations”.

SUMMARY FINANCIAL AND OTHER INFORMATION

This summary financial information should be read in conjunction with “Presentation of Financial and Certain Other Information,” Selected Financial and Other Information,” “Management’s Discussion and Analysis of Financial Condition and Results of Operation” and our financial statements, including the notes thereto, included elsewhere in this prospectus.

The following summary financial information has been derived from our audited consolidated financial statements. The summary financial data at December 31, 2006 and 2005 and for the three years ended December 31, 2006 have been derived from our consolidated financial statements included in this prospectus, which have been audited by BDO Trevisan Auditores Independents, as stated in their report appearing elsewhere in this prospectus. The summary financial data at December 31, 2004 has been derived from our audited combined financial statements that are not included in this prospectus.

Our consolidated financial statements are prepared in accordance with Brazilian GAAP, which differs in certain significant respects from U.S. GAAP. For a discussion of the principal differences between Brazilian GAAP and U.S. GAAP as they relate to our financial statements, see Annex A— “Summary of Certain Differences Between U.S. GAAP and Brazilian GAAP.”

	At and For the Year Ended December 31,			
	2006 (1)	2006 (2)	2005	2004
	(in millions of US\$)	(in millions of reais)		
STATEMENT OF OPERATIONS DATA				
Gross operating revenue	US\$2,233.4	R\$4,775.1	R\$4,219.9	R\$3,634.4
Electricity sales	2,158.3	4,614.4	4,075.4	3,505.1
Electricity supplied for resale	46.9	100.3	91.5	81.7
Other operating revenue.....	28.3	60.4	53.0	47.6
Deductions from operating revenue	(728.9)	(1,558.3)	(1,423.3)	(1,180.0)
Net operating revenue	1,504.6	3,216.7	2,796.5	2,454.5
Cost of electricity	(521.2)	(1,114.4)	(1,008.3)	(851.7)
Operating costs.....	(321.1)	(686.5)	(614.0)	(571.5)
Administrative expenses	(373.3)	(798.0)	(586.2)	(559.3)
Service income.....	289.0	617.8	587.9	472.0
Equity in the results of subsidiaries.....	81.3	173.9	(1.8)	(10.5)
Financial income (expenses), net	(229.9)	(491.6)	(498.2)	(520.6)
Operating income (loss).....	140.4	300.1	87.9	(59.1)
Non-operating income (expenses), net.....	45.4	97.1	16.7	63.8
Income tax and social contribution	(88.8)	(189.8)	69.4	(48.0)
Reversal of interest on shareholders' equity	4.9	10.4	11.7	1.9
Management remuneration	(2.5)	(5.3)	(7.3)	(1.2)
Extraordinary items, net of tax effect.....	—	—	—	(244.2)
Minority interest	(58.0)	(124.0)	(201.0)	87.5
Net Income (loss).....	US\$41.4	R\$88.5	R\$(22.6)	R\$(199.4)
BALANCE SHEET DATA				
Cash, cash equivalents and marketable securities	US\$234.1	R\$500.5	R\$260.8	R\$219.5
Short-term customers and distributors.....	345.6	738.9	668.4	631.9
Long-term customers and distributors	134.8	288.3	262.4	175.4
Related parties receivables.....	100.9	215.7	114.6	70.4
Investments.....	531.0	1,135.2	1,064.6	664.7
Property, plant and equipment, net	2,114.1	4,520.0	4,421.1	2,858.1
Total assets	4,210.9	9,002.8	8,264.6	5,976.2
Short-term loans, financings and debentures	374.8	801.3	706.8	498.8
Related parties debt.....	89.4	191.2	421.6	324.2
Long-term loans, financings and debentures (excluding current portion).....	926.8	1,981.4	958.9	1,106.3
Minority interest	825.3	1,764.4	1,372.5	788.0

At and For the Year Ended December 31,				
	2006 (1)	2006 (2)	2005	2004
	(in millions of US\$)	(in millions of reais)		
Shareholders' equity	342.9	733.1	1,125.7	164.4
OTHER FINANCIAL DATA				
Net Operating Revenue by Type of Activity				
Distribution.....	US\$1,489.6	R\$3,184.8	R\$2,889.1	R\$2,512.4
Generation	149.2	319.0	415.4	393.8
Other.....	67.1	143.4	0.8	—
Eliminations	(201.3)	(430.4)	(255.4)	(255.2)
Consolidated net operating revenue.....	US\$1,504.6	R\$3,216.8	R\$3,049.1	R\$2,650.9
Adjusted EBITDA (3)	US\$432.2	R\$905.4	R\$823.6	R\$639.5
Adjusted EBITDA margin (4)	28.1%	28.1%	27.0%	24.1%
Net debt (5).....	US\$1,261.1	R\$2,696.2	R\$1,434.2	R\$1,409.4

For the Year Ended December 31,			
	2006 (2)	2005	2004
OPERATING DATA			
Electricity sales (GWh):			
Residential	4,431	4,104	3,838
Industrial	3,244	2,536	2,783
Commercial	2,625	2,465	2,294
Rural	810	709	637
Public sector	727	653	612
Public lighting	678	624	606
Public services.....	521	477	473
Other	45	49	48
Total.....	13,081	11,617	11,291
Conventional supply (GWh) (6).....	835	993	745
Total electricity distributed (GWh)	13,916	12,610	12,036
Total customers (in thousands) (7)	3,152	2,847	2,727
Total installed hydroelectric and thermoelectric capacity (MW)	770	770	800

- (1) Translated for convenience only using the PTAX-800 exchange rate for *reais* into dollars as reported by the Central Bank at December 29, 2006 of R\$2.138=US\$1.00.
- (2) The financial and other information for 2006 is not comparable with the financial and other information for 2005 as a result of our acquisition of EDEVP, REDECOM and REDESERV on June 30, 2006, our sale of Celtins Energética S.A., which owned three PCHs, on September 31, 2006, and our sale of 10 companies that collectively own 22 of PCHs on October 6, 2006. We have accounted for these acquisitions and dispositions under the purchase method of accounting. Therefore, the assets, liabilities and results of operations of the acquired companies are included in our income statement for periods after the date of acquisition and the assets, liabilities and results of operations of the sold companies are included in our income statement for periods prior to the date of disposition.
- (3) Adjusted EBITDA is not a U.S. GAAP or Brazilian GAAP measure. Our Adjusted EBITDA is presented on a consolidated basis and, therefore, includes 100% of the Adjusted EBITDA of our consolidated subsidiaries, although our interest in several of these subsidiaries is less than 50%. For a description of Adjusted EBITDA, see "Presentation of Financial and Certain Other Information — Financial Statements and Financial Information." For a reconciliation of Adjusted EBITDA to our net income, see footnote (3) to the table presented in "Selected Financial and Other Information."
- (4) Adjusted EBITDA margin equals Adjusted EBITDA divided by net operating revenue.
- (5) Net debt is not a U.S. GAAP or Brazilian GAAP measure. We define net debt as the sum of total short- and long-term loans, financings and debentures (including net related party debt, but excluding regulatory assets) plus accrued interest, less the sum of cash, cash equivalents and marketable securities and net gains from swap transactions. Net debt does not include regulatory assets, which represent expenses that will be compensated in the future through

tariff adjustments. For a reconciliation of our net debt to our consolidated debt , see footnote (5) to the table presented in “Selected Financial and Other Information.”

- (6) Conventional supply means electricity that we supply to other unrelated electricity distribution companies.
- (7) Represents customers that are connected to the distribution network, irrespective of whether the customer has been invoiced at period-end.

RISK FACTORS

Before making an investment decision, you should consider all of the information set forth in this prospectus, as supplemented or amended. In particular, you should consider the special considerations applicable to an investment in us and in Brazil, including the risk factors set forth below. In general, investing in the securities of issuers in emerging market countries, such as Brazil, involves a higher degree of risk than investing in the securities of issuers in the United States.

Additional risks and uncertainties not currently known to us, or those that we currently deem to be immaterial, may also materially and adversely affect us. Any of the following risks could materially affect us. In such case, you may lose all or part of your original investment.

This prospectus also contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including the risks described below and elsewhere in this prospectus. See “Forward-Looking Statements.”

Risks Relating to Our Operations and the Brazilian Electric Power Industry

We are subject to extensive governmental regulation by the Brazilian government relating to our distribution and generation activities, and we cannot be certain of the effect changes in such regulation may have on our business and results of operations.

Our electricity distribution and generation operations in Brazil are highly regulated. In 2004, the Brazilian government implemented policies that have had a far-reaching impact on the Brazilian electric power industry. The New Electricity Law (*Lei de Novo Modelo do Setor Elétrico*), which regulates the operations of companies in the electric power industry, was enacted on March 15, 2004. The principal reforms under the New Electricity Law, include:

- the creation of a regulated market (*Ambiente de Contratação Regulado*) for the purchase and sale of electricity, through which distributors must contract in advance, through public bids, for 100% of their forecasted electricity needs for five-year periods;
- a general prohibition against the performance by distributors of any activities other than electricity distribution activities, including the generation or transmission of electricity, except as provided by law or the distributor's concession agreement;
- a prohibition on distributors meeting their electricity supply needs by purchasing electricity from affiliated companies, except under existing bilateral agreements previously approved by ANEEL or executed within the regulated market; and
- a prohibition on sales of electricity by distributors at unregulated prices to free customers, except for those sales in the distributors' concession area under the same conditions applicable to captive customers.

ANEEL has extensive rulemaking authority under the New Electricity Law to regulate the activities of companies in the Brazilian electric power industry. ANEEL enacts resolutions that have a significant impact on the operations of generation and distribution companies after rulemaking procedures that takes into account the views of companies operating in the electricity sector and the general public. This rulemaking authority may affect different aspects of our activities, including our tariffs, quality indicators, continuity of services and penalties. For example, ANEEL recently enacted new regulations under which distribution companies will be required to comply under penalty of law with minimum pre-established targets measured by a new quality of service indicator related to customer satisfaction.

The impact to our business of future regulation and potential future reforms in the electric power industry is difficult to predict, and any of these developments could adversely affect our business and results of operations.

Our operating revenue may be adversely affected if ANEEL makes decisions relating to our tariffs that are not favorable to us.

The tariffs that we charge for sales of electricity to customers are determined pursuant to concession agreements with ANEEL and are subject to ANEEL's regulatory decision-making authority. Our concession agreements and Brazilian law establish a price cap mechanism that permits three types of tariff adjustments:

- the annual adjustment (*reajuste anual*), designed to offset some of the effects of inflation and pass on to customers certain changes to our cost structure that are beyond our control;

- the periodic revision (*revisão periódica*), which occurs every four to five years, depending on the concession agreement applicable to the affected electricity distribution company, and which is designed to address other variations in our costs and efficiency; and
- the extraordinary revision (*revisão extraordinária*), which we may request if material and unforeseeable changes occur in our cost structure.

For more information on tariff adjustments, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Electricity Distribution Business—Distribution Tariffs.”

ANEEL’s discretion in reviewing our tariffs, as well as changes in the methodology used to calculate periodic tariff revisions, create significant uncertainty in the operation of our business and may result in tariffs that are lower than we request.

We cannot assure you that ANEEL will establish tariffs that will allow us to pass on to our customers all of the costs that we incur. In addition (as occurred in 2001 and 2002 due to electricity rationing), ANEEL may not grant favorable tariff adjustments in a timely manner, which may adversely affect our financial condition and results of operations.

We may not be able to pass on through our tariffs all of the costs of our purchased electricity. In addition, we could be required to enter into short-term electricity purchase transactions to meet customer demand, and the price of electricity under those short-term energy transactions may be higher than the price of electricity under our long-term purchase agreements.

Under the New Electricity Law, an electricity distributor must contract in advance, through public auctions, not less than all of its forecasted electricity needs for five-year periods. The first auctions occurred in December 2004 and in 2005. The New Electricity Law and subsequent regulations establish the conditions for passing through electricity purchase volumes and prices. If the contracted energy, including electricity purchased by our company in the public auctions, is less than all of our total energy requirements, we may be subject to fines and may not be able to pass on the full costs of additional electricity purchases, which may be more expensive on the spot market, to our customers. If contracted energy, including electricity purchased by our company in the public auctions, is more than 100% and less than 103% of our total energy requirements, we are allowed to pass through the total volume of purchased electricity to our customers. However, if contracted energy, including electricity purchased by our company in the public auctions, is more than 103% of our total energy requirements, we must assume the price risk of buying the excess energy in the public auctions and selling it in the spot market. The New Electricity Law limits our ability to pass through the cost of electricity purchases to our customers if our costs exceed the Annual Reference Value (*Valor Anual de Referência*) established by ANEEL, which is based on the weighted average price paid by all distribution companies in the public auctions for electricity from new generation undertakings to be delivered three to five years from the date of any such auction and will only be applied during the first three years after the commencement of delivery of the acquired electricity.

In addition, the New Electricity Law created a mandatory adjustment mechanism among distributors (*Mecanismo de Compensação de Sobras e Déficits de Energia*), or MCS D, that requires distributors that contracted for electricity in the electricity auctions in excess of their actual demand to transfer such excess electricity to distributors that contracted insufficient amounts of electricity. The New Electricity Law requires distributors that have contracted insufficient amounts of electricity to accept excess electricity on the same terms as those under which the distributors with excess electricity acquired this electricity. The New Electricity Law also provides that distributors have the option (exercisable in their sole discretion) to reduce the volume of electricity that they acquire in “existing energy” auctions by 4% per year in the event that the needs of the distributor decline.

If, after the application of the MCS D described above and our exercise of options to reduce the volume of existing energy we have contracted for by 4%, our contracted electricity remains lower than 100% or greater than 103% of the total demand for energy, we may not be able to fully pass on the costs of our electricity purchases to our customers if we have contracted too much electricity or we may be required to pay penalties if we have contracted insufficient amounts of electricity. We cannot guarantee that our forecasted electricity demand will be accurate.

Given the numerous factors that affect our electricity demand forecasts, including economic and population growth, hydrological conditions and potential rationing, we cannot assure you that our forecasted electricity demand will be accurate. If there are significant variations between our forecasted electricity needs and the volume of our electricity purchases, our results of operations may be adversely affected.

We could be penalized by ANEEL for failing to comply with the terms of our concession agreements and applicable regulations, which could result in fines, other penalties and, depending on the gravity of the non-compliance, in the termination of our concessions.

We engage in distribution and generation activities pursuant to concession agreements entered into with the Brazilian government represented by ANEEL, which terminate between 2015 and 2028 and which may be renewed upon our request. Based on the provisions of our concession agreements and applicable regulations, ANEEL may impose penalties on our distribution companies in the event that we fail to comply with any provision of our distribution concession agreements. Depending on the gravity of the non-compliance, these penalties could include the following:

- warning notices;
- fines per breach of up to 2.0% of gross operating revenue of the non-compliant distribution company in the year ending immediately prior to the date of the relevant breach;
- injunctions related to the construction of new facilities and equipment;
- restrictions on the operation of existing facilities and equipment;
- temporary suspension from participating in bidding processes for new concessions;
- intervention by ANEEL in the management of the concession of the non-compliant distribution company; and
- termination of the concession of the non-compliant distribution company.

In addition, the Brazilian government has the power to terminate any of our distribution concessions prior to the end of the applicable concession term if the relevant distribution company declares bankruptcy or is dissolved, or through expropriation in the public interest.

If any of our distribution concession agreements were terminated, we would not be able to operate our business and generate and distribute electricity to our customers in the area covered by the terminated concession agreement. In addition, the compensation to which we would be entitled upon termination of any of our concessions may not be sufficient for our company to realize the full value of the related assets, and the payment of that compensation could be delayed for many years. If any of our distribution concession agreements were terminated for reasons attributable to our company, the amount of compensation paid to our company could be materially reduced through the imposition of fines or other penalties. In addition, (1) a portion of Caiuá's credit rights to receive proceeds relating to the early termination of our distribution concessions have been assigned or encumbered (*cessão fiduciária*) under a Credit Rights Investment Fund (*Fundo de Investimento em Direitos Creditórios*) created by Caiuá, (2) a portion of the credit rights of CEMAT and CELPA to receive proceeds relating to the early termination of their distribution concessions have been pledged and assigned (*penhor e cessão*) to the Inter-American Development Bank, or IDB, a multilateral financial institution, and (3) a portion of CELTIN's credit rights to receive proceeds relating to the early termination of their distribution concessions have been assigned or encumbered (*cessão fiduciária*) to the IDB.

The imposition of fines or penalties on our company or the termination of our distribution concessions could have a material adverse effect on our financial condition and results of operations.

If we are unable to successfully control electricity losses and we cannot pass these losses on to our customers through our tariffs, our results of operations and our financial condition could be adversely affected.

We experience two types of electricity losses in our distribution activities: technical losses and commercial losses. Technical losses are inherent to the distribution of electricity, as a portion of the electricity we distribute inevitably dissipates in the course of transmission. Commercial losses result from illegal connections, theft, fraud, faulty metering and billing errors. In 2006, our total electricity loss was 18.5% of total electricity distributed. The implementation of loss reduction programs requires substantial investments, and we cannot assure you that we will have available the resources necessary for these investments. We also cannot assure you that the strategies we have implemented to combat electricity losses will be effective. A portion of our electricity losses may not be passed on through tariff increases, and we cannot assure you that increases in electricity losses will not adversely affect our financial condition and results of operations.

The Brazilian government has created a “universalization” program that requires us to extend electric service to certain consumers and to make capital and operational expenditures that may not be financially advantageous to us.

In 2002, the Brazilian government began to implement a “universalization” program aimed at making electricity available to low voltage consumers who do not otherwise have access to electricity. In 2003, the Brazilian government began implementing the Light for All Program, designed to make electricity available to low-income rural customers who would not otherwise have access to electricity. Under the Light for All Program, (1) the MME and electricity distributors collectively through ANEEL established targets with respect to the number of new rural low-income customers for each electricity distributor, and (2) electricity distribution companies bear the initial costs of building the infrastructure to provide these customers with electricity at a voltage of up to 50 kW. If we fail to comply with the targets set forth under the Light for All Program, we may be penalized by ANEEL.

Targets established by the government require significant capital expenditures. A portion of these capital expenditures are reimbursed through grants from the Energy Development Account (*Conta de Desenvolvimento Energética*), or CDE, and the global reversion fund (*Reserva Global de Reversão*), or RGR Fund, and state government subsidies. Subject to ANEEL’s discretion, we must wait until our next periodic tariff revision, which occurs every four or five years, to pass on the unreimbursed capital expenditures incurred by us to our customers. ANEEL regulations provide that, in the event additional costs arising from the implementation of the Light for All Program cause tariffs for any distribution company to increase by more than 8%, that distribution company may request a revision of the targets set by the program. However, we cannot assure you that if our tariffs increase by more than 8% as a result of the implementation of this program, ANEEL will timely reset the targets under, and the timetable for implementation of, this program, if at all.

Due to our expansive concession areas with dispersed populations, our costs to comply with the universalization program are relatively higher than for other distribution companies that operate in smaller concession areas with a higher population density. We invested R\$523.0 million in 2006, R\$246.7 million in 2005 and R\$54.9 million in 2004 to meet the goals of the universalization program and the Light for All Program, which represented 53.3%, 44.4% and 14.1%, respectively, of our total capital expenditures during those years. In 2007, we estimate that we will invest approximately R\$590.0 million (approximately 85% of which will be financed by the Brazilian government) to meet the goals of the universalization program, which will represent approximately 60.2% of our total budgeted capital expenditures. In addition, as we are heavily dependent on government financing to comply with the universalization targets, any delay in obtaining this financing could adversely affect our compliance with the targets set forth by ANEEL, subjecting us to regulatory penalties, including a potential reduction of our tariffs. Even if ANEEL reduces the targets, our growth strategy could be materially adversely affected.

In addition, because this program primarily provides electricity to low-income individuals, the compulsory capital and operating expenditures may not generate benefits for us that are comparable to the benefits that would ordinarily be generated by investments made in accordance with our own business judgment. The Brazilian government could impose additional obligations in the future under the Light for All Program or other similar programs, which could significantly increase our capital expenditures or operating costs and could adversely affect our financial condition and results of operations.

Our distribution companies have a significant amount of overdue accounts receivable that, if not recovered, may adversely affect our financial results.

The ability of our distribution companies to receive payment from their customers depends on the creditworthiness of those customers and our capacity to collect amounts due. As of December 31, 2006, our consolidated overdue accounts receivable from customers totaled R\$361.7 million, representing 6.9% of our gross operating revenue during the year ended December 31, 2006. Of our overdue accounts receivable as of December 31, 2006, 14.7% were past due by more than 90 days. Of this amount, 42.8% relates to debts owed to us by public sector customers. If we are unable to recover a significant portion of these accounts receivable, our financial results will be adversely affected. In addition, any deterioration in the Brazilian economy, particularly in the regions we serve, could adversely affect the creditworthiness of our customers, which could further increase our overdue accounts receivable.

We are exposed to increases in inflation rates and prevailing market interest rates, as well as to fluctuations in the real/dollar exchange rate.

As of December 31, 2006, 80.9%, or R\$2,251.2 million, of our total indebtedness (including accrued interest) was denominated in *reais* and indexed to Brazilian money-market rates or inflation rates, or bore interest at floating rates. As of December 31, 2006, 19.1%, or R\$531.5 million, of our total indebtedness (including accrued interest) was

denominated in foreign currencies and indexed to international market rates or bore interest at floating rates. In addition, for the year ended December 31, 2006, 1.8%, or R\$46.8 million, of our administrative expenses and operating costs were linked to the dollar, primarily as a result of the acquisition of electricity from the Itaipu Hydroelectric Plant (*Usina Hidrelétrica de Itaipu*), or Itaipu. Although we hedge a significant portion of our exposure to fluctuations in exchange rates and interest rates, an increase in Brazilian inflation rates, or Brazilian or international interest rates or an appreciation of the dollar relative to the *real* will increase our financing expenses and, consequently, our financial condition and results of operations may be adversely affected.

Our substantial leverage and debt service obligations could adversely affect our ability to operate our business and make payments on our debt, as well as our results of operations.

We are highly leveraged and have significant debt obligations. As of December 31, 2006, we had outstanding debt, excluding related party debt, of R\$2,782.7 million. Our substantial level of indebtedness increases the possibility that we may be unable to generate cash sufficient to pay when due the principal, interest or other amounts due in respect of our indebtedness. In addition, we may incur additional debt from time to time to finance strategic acquisitions, investments, joint ventures or for other purposes, subject to the restrictions applicable to our existing indebtedness and the notes offered hereby. If we incur additional debt, the risks associated with our substantial leverage, including our ability to service our debt, would increase. Although we recorded net income of R\$88.5 million in 2006, we recorded net losses of R\$22.6 million in 2005 and R\$199.4 million in 2004, in large part as a result of our high levels of indebtedness. If we are unable to reduce our indebtedness or our indebtedness increases, we may record additional net losses in the future.

Our debt agreements contain restrictive covenants, including financial ratios, such that any violation of these covenants could materially adversely affect our financial condition and our ability to conduct our business.

We are parties to numerous debt instruments, many of which require us to maintain specified financial ratios or to comply with other specific covenants. Any event of default under our debt instruments that is not cured or waived could lead the holders of our debt to cause all amounts outstanding with respect to the debt to become due and payable immediately, and could also trigger cross defaults under other debt instrument. Our assets and cash flow may not be sufficient to fully repay borrowings under our outstanding debt instruments, either upon maturity or if accelerated upon an event of default.

The construction, operation and expansion of our electricity generation and distribution facilities and equipment involve significant risks that could lead to lost revenue or increased expenses.

The construction, operation and expansion of our facilities and equipment for the generation and distribution of electricity involve many risks, including:

- the inability to obtain required governmental permits and approvals;
- the unavailability of equipment;
- supply interruptions;
- work stoppages;
- labor unrest;
- social unrest;
- weather and hydrological interferences;
- unforeseen engineering and environmental problems;
- increases in electricity losses, including technical and commercial losses;
- construction and operational delays or unanticipated cost overruns; and
- unavailability of adequate funding.

If we experience any of these or other problems, we may not be able to distribute electricity in amounts consistent with our business plan, which may have an adverse effect on our financial condition and results of operations.

The effect of an electricity shortage and related electricity rationing, as in 2001 and 2002, may have a material adverse effect on our business and results of operations.

Hydroelectric power is the principal source of electricity in Brazil, representing approximately 77% of Brazil's installed generation capacity as of December 31, 2006. The operating capacity of hydroelectric power plants in Brazil depends on reservoir levels and, consequently, rainfall indices. Below average rainfall prior to 2001 resulted in low reservoir levels and low hydroelectric operating capacity in the Southeast, Midwestern and Northeast regions of Brazil, and attempts to offset dependence on hydroelectric power plants with gas-fired thermoelectric plants were delayed due to regulatory and other issues. On May 15, 2001, in response to the energy shortage, the Brazilian government created the Energy Crisis Management Chamber (*Câmara de Gestão da Crise de Energia Elétrica*) to regulate and administer the Rationing Program. The Rationing Program established limits for electricity consumption for industrial, commercial and residential customers, which ranged from a 15.0% to a 25.0% reduction in electricity consumption and lasted from June 2001 until February 2002. As a result of the Rationing Program, electricity consumption in our concession areas decreased, reducing our gross operating revenue. If Brazil experiences another electricity shortage, the Brazilian government may implement policies to address the shortage, including rationing of electricity consumption, which could have a material adverse effect on our financial condition and results of operations. In addition, we cannot assure you that, if Brazil experiences another energy shortage, ANEEL will allow us to pass on all or part of the losses that we suffer to our customers through our distribution tariffs.

Denerge Desenvolvimento Energético S.A. may have the ability to determine the outcome of corporate actions or decisions, which could affect the holders of the notes.

Denerge Desenvolvimento Energético S.A., or Denerge, directly and indirectly controls 98.8% of our voting share capital, and its designees currently constitute a majority of the members of our board of directors. As a result, Denerge may have the ability to determine the outcome of major corporate actions or decisions requiring the approval of our shareholders or our board of directors, which could affect the holders of the notes.

We may not be able to fully execute our business strategy.

Our ability to implement our business strategy depends on several factors, including our ability to:

- complete the installation and construction of new distribution networks and substations, particularly in reliance of government-sponsored programs, such as the Light for All Program;
- avoid delays and unforeseen costs in excess of our budget;
- avoid engineering and environmental problems;
- identify and acquire interests in distribution companies with growth potential;
- obtain concessions to construct new generation projects through public bidding processes conducted in accordance with the New Electricity Law; and
- obtain additional capital for the future growth and development of our business.

Our inability to do any of the foregoing may have an adverse effect on our ability to execute our business strategy.

Our investment and acquisition strategy may be adversely affected if we are unable to obtain financing or to access the capital markets.

To finance our operations and our investment and acquisition strategy, we may seek to obtain financing from Brazilian and foreign financial institutions and development banks, and we may seek to access the capital markets. Our ability to obtain financing depends on a variety of factors, including our level of outstanding indebtedness and market conditions. If we are unable to obtain necessary financing on reasonable terms, our ability to implement our investment and acquisition strategy and our business and results of operations may be adversely affected.

Future acquisitions may threaten our ability to meet our goals and implement our strategies.

Our long-term growth strategy includes acquisition of other companies or assets related to our current business activities. We cannot assure you that future acquisitions will occur, and if they occur, whether they will contribute strategically to our goals. Moreover, the acquisition of companies or assets creates additional operating and financial risks, including difficulties in integrating administrative and operational management of our current assets with the assets that may be acquired in the future, contingent liabilities and reallocating financial and administrative resources to the integration process. In the event that future acquisitions do not bring the expected benefits, our business, results of operations and cash flow may be adversely affected.

Our equipment, facilities and operations are subject to numerous safety, health and environmental regulations that may become more stringent in the future and may result in increased liabilities and capital expenditures.

Our distribution and generation activities are subject to comprehensive federal, state and municipal legislation, as well as supervision by governmental agencies that are responsible for the implementation of safety, health and environmental laws and policies. Our obligations under these laws and policies include a requirement that we comply with environmental standards and obtain environmental licenses for the construction of new facilities or the installation and operation of new equipment required for our operations. Failure on our part to meet these obligations could result in, among other things, civil, criminal and administrative liabilities and/or the imposition of fines and/or the revocation of licenses and the suspension of operations.

We are strictly liable for any damages resulting from inadequate rendering of electricity services and our contracted insurance policies may not fully cover such damages or other damages.

Under Brazilian law, we are strictly liable for direct and indirect damages resulting from the inadequate rendering of electricity distribution services, such as abrupt supply interruptions or disturbances arising from our generation or distribution systems. We may be held liable for any losses and damages caused to third parties arising from such interruptions or disturbances in our generation or distribution systems, if these interruptions or disturbances are not attributed to an identifiable member of the National Electricity System Operator (*Operador Nacional do Sistema Elétrico*), or ONS, regardless of whether we are at fault. Any liabilities arising from these interruptions or disturbances that are not covered by our insurance policies or that exceed the limits of our insurance policies may result in significant additional costs to us and may adversely affect our results of operations.

Our insurance policies may not be sufficient to fully cover all liabilities that may arise in the course of our business. In addition, we do not maintain insurance for the interruption of electricity service. Moreover, we may not be able to obtain insurance on comparable terms in the future or at all. Our results of operations may be adversely affect if we become liable for damages that are not fully covered by our insurance policies.

Risks Relating to Brazil

The Brazilian government has exercised, and continues to exercise, significant influence over the Brazilian economy. Brazilian political and economic conditions could adversely affect our business and the trading price of the notes.

The Brazilian government frequently intervenes in the Brazilian economy and occasionally makes significant changes in monetary, credit, tax and other policies and regulations that may influence Brazil's economy.

The Brazilian government's actions to control inflation and other policies and regulations have often involved, among other measures, price controls, currency devaluations, capital controls and limits on imports. We have no control over, and cannot predict, what measures or policies the Brazilian government may take in the future. Our business, financial condition, results of operations and cash flow, as well as the trading price of the notes may be adversely affected by changes in federal, state or municipal policies or regulations involving or affecting tariffs or exchange controls, as well as factors such as:

- exchange rate variation;
- exchange control policies;
- inflation rates;
- interest rates;
- liquidity of domestic capital and lending markets;
- electricity rationing;
- price control policies;
- fiscal and regulatory policies and changes in tax laws;

- level of foreign investment in Brazil; and
- other political, diplomatic social and economic developments in or affecting Brazil.

Uncertainty over whether the Brazilian government will implement changes in policies or regulations affecting these or other factors in the future may contribute to economic uncertainty in Brazil and to heightened volatility in the Brazilian securities markets and securities issued abroad by Brazilian companies. As a result, these uncertainties and other future developments in the Brazilian economy may adversely affect us and our business and results of operations and may adversely affect the trading price of the notes.

Inflation and efforts by the Brazilian government to combat inflation may contribute significantly to economic uncertainty in Brazil and could adversely affect our results of operations and the trading price of the notes.

Prior to 1994, Brazil experienced extremely high rates of inflation during certain periods. More recently, Brazil's annual rate of inflation was 3.9% in 2006, 1.2% in 2005 and 12.4% in 2004, as measured by the General Market Price Index (*Índice Geral de Preços–Mercado*), or IGP-M. Inflation, and certain government actions taken to combat inflation, have contributed to economic uncertainty in Brazil and heightened the volatility of the Brazilian securities markets. Future measures by the Brazilian government, including increases in interest rates, intervention in the foreign exchange market and actions to adjust or fix the value of the *real*, may have a material adverse effect on the Brazilian economy, our business and the trading price of the notes.

In addition, if Brazil experiences high inflation in the future, we may not be able to adjust the rates we charge our customers to offset the effects of inflation on our cost structure, which could increase our costs and decrease our net operating margin. Inflationary pressures, and perceptions of inflationary pressures, may also hinder our ability to access international financial markets or lead to government policies to combat inflation, that could harm our business or adversely affect the trading price of the notes.

Exchange rate instability may adversely affect our financial condition, results of operations and the trading price of the notes.

The Brazilian currency has been devalued periodically during the last four decades. During this period, the Brazilian government has implemented various economic plans and utilized a number of exchange rate policies, including sudden devaluations, periodic mini-devaluations during which the frequency of adjustments has ranged from daily to monthly, floating exchange rate systems, exchange controls and dual exchange rate markets.

Although the *real* appreciated against the dollar by 8.7% in 2006, 11.7% in 2005, 8.1% in 2004 and 18.2% in 2003, the *real* depreciated against the dollar by 34.3% in 2002, 18.7% in 2001 and 9.3% in 2000. We cannot assure you that the value of the *real* as against the dollar will not continue to fluctuate in the future.

Depreciation of the *real* relative to the dollar may create inflationary pressures in Brazil that may negatively affect our business and results of operations. Depreciation generally curtails access to international capital markets and may prompt government intervention, including recessionary governmental policies. On the other hand, the appreciation of the *real* against the dollar may lead to the deterioration of Brazil's public accounts and balance of payments, as well as to lower economic growth related to exports. Any of these factors may adversely affect our business, results of operations, cash flow and the trading price of the notes.

Restrictions on the movement of capital out of Brazil may impair our ability to service certain debt obligations, including the notes.

Brazilian law permits the Brazilian government to impose temporary restrictions on the conversion of Brazilian currency into foreign currencies and on the remittance to foreign investors of proceeds from their investments in Brazil whenever there is a serious imbalance in Brazil's balance of payments or there are reasons to foresee a serious imbalance. The Brazilian government last imposed restrictions on remittance for approximately six months in 1989 and early 1990. There can be no certainty that the Brazilian government will not take similar measures in the future. The imposition of such restrictions on conversions and remittance could hinder or prevent us from paying principal, interest and/or additional amounts due on the notes. It could also prevent us from making payments on our other dollar-denominated debt obligations, which would cause us to default on those obligations, and hinder our ability to access international capital markets. As a result, these restrictions could reduce the trading price of the notes.

The market value of securities issued by Brazilian companies is influenced by the perception of risk in Brazil and other emerging economies, which may have a negative effect on the trading price of the notes and may restrict our access to international capital markets.

Economic and market conditions in other emerging market countries, especially those in Latin America, may influence the market for securities issued by Brazilian companies. Investors' reactions to developments in these other countries may have an adverse effect on the market value of securities of Brazilian issuers. Crises in other emerging countries or economic policies of other countries, in particular the United States, may hamper investors' enthusiasm for securities issued by Brazilian companies, including the notes. Any of these factors could adversely affect the market price of the notes and impede our ability to access the capital markets and finance our operations in the future on terms acceptable to us.

Risks Relating to the Notes

The notes have no maturity date, are not redeemable at the option of holders of notes and have sinking fund provisions that apply only in limited circumstances.

The notes have no fixed final maturity date, are not redeemable at the option of holders of notes and have sinking fund provisions that apply only in limited circumstances. As a result, holders of the notes will be entitled to receive a return of the principal amount of their investment only if Rede elects to redeem or repurchase the notes or in the event of acceleration due to an event of default.

Rede is a holding company with no independent operations or assets. Repayment of Rede's debt, including the notes, is dependent on cash flow generated by its subsidiaries.

Rede is a holding company, and all of our concessions and distribution and generation assets are held by its direct and indirect subsidiaries. Repayment of Rede's indebtedness, including the notes, is dependent on the generation of cash flow by Rede's subsidiaries and their ability to make such cash available Rede, by dividend, debt repayment or otherwise. The ability of Rede's subsidiaries to make dividend or other payments to Rede will be affected by, among other factors, the obligations of these subsidiaries to their creditors, requirements of Brazilian corporate and other law, and restrictions contained in agreements entered into by or relating to these entities.

Rede's subsidiaries do not have any obligation to pay amounts due on the notes or to make funds available for that purpose. While the indenture governing the notes limits the ability of Rede's subsidiaries to incur consensual restrictions on their ability pay dividends or make intercompany payments to Rede, these limitations are subject to certain qualifications and exceptions. In the event that Rede does not receive distributions from its subsidiaries, Rede may be unable to make required payments on its indebtedness, including the notes.

Payments on the notes will be junior to Rede's secured debt obligations and effectively junior to debt obligations of Rede's subsidiaries.

The notes will constitute senior unsecured obligations of Rede. The notes will rank equal in right of payment with all of Rede's other existing and future senior unsecured indebtedness.

As of December 31, 2006, Rede had total consolidated debt of approximately R\$2,782.7 million, excluding related party debt, of which approximately R\$278.1 million was unsecured debt of Rede, approximately R\$600.6 million was secured debt of Rede, and approximately R\$1,904.0 million was debt of Rede's subsidiaries.

The notes will be subordinated to secured debt of Rede to the extent of the assets and property securing such debt. Payment on the notes will also be structurally subordinated to the payment of secured and unsecured debt and other creditors of Rede's subsidiaries. As of the date of this prospectus, a substantial portion of Rede's accounts receivable is subject to liens and other security interests to secure indebtedness of Rede. Any right of the holders of the notes to participate in the assets of Rede, including the capital stock of its subsidiaries, and the assets of Rede's subsidiaries upon any liquidation or reorganization will be subject to the prior claims of Rede's secured creditors and the creditors of its subsidiaries. The indenture relating to the notes includes a limitation on Rede's ability and the ability of Rede's subsidiaries to incur certain indebtedness, although this limitation is subject to certain significant exceptions.

The indenture governing the notes will not limit our ability to incur liens on our assets or to make distributions to our shareholders.

The indenture governing the notes will not limit our ability to grant liens on our assets. Therefore, to the extent we are able to incur indebtedness under the indenture, such indebtedness may be secured by all or a portion of our assets. The notes would be effectively subordinated to any additional secured debt that we may incur to the extent of the value of the collateral securing such debt. In addition, the indenture will not contain a limitation on our ability to make distributions to our shareholders, and therefore, subject to Brazilian law, we will not be prohibited or limited in paying dividends or making other distributions to our shareholders.

Because a substantial portion of our assets are dedicated to providing an essential public service, they will not be available for liquidation in the event of our bankruptcy, and cannot be subject to attachment to secure a judgment.

A substantial portion of our assets, including our electricity distribution network and some of our generation assets, are dedicated to providing an essential public service. These assets would not be available for liquidation in the event of our bankruptcy or attachment to secure a judgment, and in the case of our bankruptcy would, pursuant to the terms of our concessions and Brazilian law, revert to the Brazilian government. Although the Brazilian government would be obligated to compensate us for early termination of our concessions, we cannot assure you that the amount ultimately paid by the Brazilian government would be equal to the market value of the reverted assets. These restrictions on liquidation may lower significantly the amounts available to holders of the notes in the event of our liquidation and may adversely affect our ability to obtain adequate financing.

Rede will have the right to redeem the notes at its option on April 2, 2012 or any interest payment date occurring thereafter, or at any time upon the occurrence of certain tax events.

Rede will have the right, at its option on April 2, 2012 or any interest payment date occurring thereafter, or upon the occurrence of certain tax events (as described under “Description of the Notes—Optional Tax Redemption”) to redeem the notes. We cannot give any assurances that amounts received upon redemption will be able to be reinvested at a rate that will provide the same rate of return as an investment in the notes.

We cannot assure you that an active trading market for the notes will develop.

The notes constitute a new issue of securities, for which there is no existing market. We cannot provide you with any assurances regarding the future development of a market for the notes, the ability of holders of the notes to sell their notes, or the price at which such holders may be able to sell their notes. If such a market were to develop, the notes could trade at prices that may be higher or lower than the initial offering price depending on many factors, including prevailing interest rates, our results of operations and financial condition, political and economic developments in and affecting Brazil and the market for similar securities. The initial purchaser of this offering has advised our company that it currently intends to make a market in the notes. However, the initial purchaser is not obligated to do so, and any market-making with respect to the notes may be discontinued at any time without notice.

Brazilian bankruptcy laws may be less favorable to you than U.S. bankruptcy and insolvency laws.

If we are unable to pay our indebtedness, including our obligations under the notes, then we may become subject to bankruptcy proceedings in Brazil. The new Brazilian bankruptcy law that became effective on June 9, 2006 is significantly different from, and may be less favorable to creditors than, the bankruptcy law in effect in the United States. In addition, any judgment obtained against us in Brazilian courts in respect of any payment obligations under the notes normally would be expressed in the *real* equivalent of the dollar amount of such sum at the exchange rate in effect (1) on the date of actual payment, (2) on the date on which such judgment is rendered, or (3) on the date on which collection or enforcement proceedings are started against us. Consequently, in the event of our bankruptcy, all of our debt obligations, including the notes, that are denominated in foreign currency will be converted into *reais* at the prevailing exchange rate on the date of declaration of our bankruptcy by the court.

Changes in Brazilian tax laws may have an adverse impact on the taxes applicable to a disposition of the notes.

Under Law No. 10,833, enacted on December 29, 2003, the disposition of assets located in Brazil by a non-resident to either a Brazilian resident or a non-resident is subject to taxation in Brazil, regardless of whether the disposition occurs outside or within Brazil. In the event that the disposition of assets is interpreted to include a disposition of the notes, this tax law could result in the imposition of withholding taxes on a disposition of the notes by a non-resident of Brazil to another non-resident of Brazil. Given that no judicial guidance as to Law No. 10,833’s application yet exists, we are

unable to predict whether an interpretation applying this law to dispositions of the notes between non-residents could ultimately be made by in the courts of Brazil.

The notes are subject to transfer restrictions.

The notes have not been registered under the Securities Act or any state securities laws and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable state securities laws. Such exemptions include offers and sales that occur outside the United States in compliance with Regulation S under the Securities Act and in accordance with any applicable securities laws of any other jurisdiction and sales to qualified institutional buyers as defined under Rule 144A under the Securities Act. For a discussion of certain restrictions on resale and transfer, see “Notice to Investors.”

We cannot assure you that a judgment of a United States court for liabilities under U.S. securities laws would be enforceable in Brazil, or that an original action can be brought in Brazil against Rede for liabilities under U.S. securities laws.

Rede is incorporated under the laws of Brazil and substantially all of its assets are located in Brazil. In addition, all or substantially all of Rede’s directors and officers and certain advisors named herein reside in Brazil. As a result, it may not be possible for investors to effect service of process within the United States upon Rede or its directors, officers and advisors or to enforce against them in U.S. courts any judgments predicated upon the civil liability provisions of the U.S. federal securities laws.

The book-entry registration system of the notes may limit the exercise of rights by the beneficial owners of the notes.

Because transfers of interests in the global notes representing the notes may be effected only through book entries at DTC and its direct and indirect participants (including Clearstream Luxembourg and Euroclear), the liquidity of any secondary market in the notes may be reduced to the extent that some investors are unwilling to hold notes in book-entry form in the name of a DTC direct or indirect participant. The ability to pledge interests in the global notes may be limited due to the lack of a physical certificate. In addition, beneficial owners of interests in global notes may, in certain cases, experience delay in the receipt of payments of principal and interest since the payments will generally be forwarded by the paying agent to DTC, who will then forward payment to its direct and indirect participants, which (if they are not themselves the beneficial owners) will then forward payments to the beneficial owners of the global notes. In the event of the insolvency of DTC or any of its direct and indirect participants in whose name interests in the global notes are recorded, the ability of beneficial owners to obtain timely or ultimate payment of principal and interest on global notes may be negatively affected.

A holder of beneficial interests in the global notes will not have a direct right under the notes to act upon any solicitations that we may request. Instead, holders will be permitted to act only to the extent they receive appropriate proxies to do so from DTC or, if applicable, DTC’s direct or indirect participants. Similarly, if we default on our obligations under the notes, holders of beneficial interests in the global notes will be restricted to acting through DTC, or, if applicable, DTC’s direct or indirect participants. We cannot assure holders that the procedures of DTC or DTC’s nominees or direct or indirect participants will be adequate to allow them to exercise their rights under the notes in a timely manner.

USE OF PROCEEDS

The net proceeds to Rede from the sale of the notes, after deducting the initial purchaser's discounts and commissions (excluding general expenses payable by us in respect of this offering), will be US\$386.5 million and will be used to repay short-term and long-term indebtedness of Rede and for general corporate purposes.

EXCHANGE CONTROLS AND FOREIGN EXCHANGE RATES

In the past, Brazil has experienced periods of severe devaluation and imposition of exchange controls. Between March 1995 and January 1999, the Central Bank permitted the gradual devaluation of the *real* against the U.S. dollar pursuant to an exchange rate policy that established a band within which the *real*-U.S. dollar exchange rate could float. Responding to pressure on the *real*, on January 13, 1999 the Central Bank widened the foreign exchange band and, on January 15, 1999, allowed the *real* to float freely. Since the beginning of 2001, the Brazilian exchange market has been increasingly volatile, and, until early 2003, the value of the *real* declined relative to the U.S. dollar, primarily due to financial and political instability in Brazil and Argentina. In 2004 and 2005 and through June 30, 2006, however, the *real* appreciated in relation to the U.S. dollar by 8.8%, 17.3% and 8.1%, respectively.

Prior to March 14, 2005, there were two legal foreign exchange markets in Brazil, the commercial rate exchange market and the floating rate exchange market, in both of which rates were freely negotiated, but could be strongly influenced by Central Bank intervention.

On March 4, 2005, the commercial rate exchange market and the floating rate exchange market were unified into a single exchange market, effective as of March 14, 2005. The new regulation also allows, subject to certain procedures and specific regulatory provisions, the purchase and sale of foreign currency and the international transfer of *reais* by a foreign person or legal entity, without limitation as to amount. However, the underlying transaction must have been valid and legal. Foreign currencies may only be purchased through financial institutions domiciled in Brazil and authorized to operate in the exchange market.

On March 28, 2007, the PTAX-800 exchange rate for *reais* into dollars was R\$2.071 to US\$1.00. We cannot predict whether the Central Bank or the Brazilian government will continue to allow the *real* to float freely or will intervene in the exchange rate market through a currency band system or otherwise, or that the exchange market will not be volatile as a result of political or economic instability or other factors. In light of these factors, we also cannot predict whether the *real* will depreciate or appreciate in value in relation to the U.S. dollar in the future. For more information on these risks, see “Risk Factors—Risks Relating to Brazil—Exchange rate instability may adversely affect our financial condition, results of operations and the trading price of the notes.”

The following tables set forth the PTAX-800 exchange rate, expressed in *reais* per U.S. dollar for the periods indicated, as reported by the Central Bank.

	Year-end	Average (1) for Year (<i>reais</i> per U.S. dollar)	Low	High
Year Ended December 31:				
2002	R\$3.533	R\$2.931	R\$2.271	R\$3.955
2003	2.889	3.071	2.822	3.662
2004	2.654	2.926	2.163	2.762
2005	2.341	2.435	2.180	2.374
2006	2.138	2.177	2.059	2.371

Source: Central Bank.

	Low	High
	(<i>reais</i> per U.S. dollar)	(<i>reais</i> per U.S. dollar)
Month:		
September 2006	R\$2.128	R\$2.219
October 2006	2.133	2.168
November 2006	2.135	2.187
December 2006	2.138	2.169
January 2007	2.125	2.156
February 2007	2.076	2.117
March 2007	2.050	2.138
April 2007 (through April 20, 2007)	2.022	2.047

Source: Central Bank.

(1) Average represents the average exchange rate on the last day of each month during each year presented.

CAPITALIZATION

The following table sets forth our consolidated debt and capitalization at December 31, 2006, derived from our audited consolidated and combined financial statements prepared in accordance with Brazilian GAAP:

- on an actual historical basis; and
- as adjusted for the sale of the notes in the offering, after deduction of the initial purchaser's discounts and commissions (excluding general offering expenses payable by us in respect of this offering), the receipt of proceeds therefrom, and giving effect to the initial use of such proceeds.

You should read this table in conjunction with our consolidated and combined financial statements included in this prospectus.

	As of December 31, 2006			
	Actual		As Adjusted	
	(in millions of US\$) (1)	(in millions of reais)	(in millions of US\$) (1)	(in millions of reais)
Cash, cash equivalents and marketable securities ..	US\$234.1	R\$500.5	US\$293.2	R\$626.9
Short-term debt (2):				
Loans and financing	US\$307.8	R\$658.0	US\$140.0	R\$299.3
Debentures.....	67.0	143.3	34.3	73.3
Total.....	US\$374.8	R\$801.3	US\$174.3	R\$372.6
Long-term debt:				
11.125% Perpetual Notes.....	US\$—	R\$—	US\$400.0	R\$855.2
Loans and financing	919.9	1,966.8	793.0	1,695.5
Debentures.....	6.8	14.6	6.8	14.6
Shareholders' equity.....	342.9	733.1	342.9	733.1
Total capitalization (long-term debt (excluding current portion) and shareholders' equity)	US\$1,269.6	R\$2,714.5	US\$1,542.7	R\$3,294.4

- (1) Translated for convenience only using the PTAX-800 exchange rate for *reais* into dollars as reported by the Central Bank at December 29, 2006 of R\$2.138=US\$1.00.
- (2) Includes the current portion of long-term debt.

Except as disclosed in this Prospectus, there has been no material change in the capitalization or indebtedness of our company since December 31, 2006.

SELECTED FINANCIAL AND OTHER INFORMATION

This selected financial information should be read in conjunction with “Presentation of Financial and Certain Other Information,” “Management’s Discussion and Analysis of Financial Condition and Results of Operation” and our financial statements, including the notes thereto, included elsewhere in this prospectus.

The following selected financial information has been derived from our audited consolidated financial statements. The selected financial data at December 31, 2006 and 2005 and for the three years ended December 31, 2006 have been derived from our consolidated financial statements included in this prospectus, which have been audited by BDO Trevisan Auditores Independents, as stated in their report appearing elsewhere in this prospectus. The selected financial data at December 31, 2004 has been derived from our audited combined financial statements that are not included in this prospectus.

Our consolidated financial statements are prepared in accordance with Brazilian GAAP, which differs in certain significant respects from U.S. GAAP. For a discussion of the principal differences between Brazilian GAAP and U.S. GAAP as they relate to our financial statements, see Annex A— “Summary of Certain Differences Between U.S. GAAP and Brazilian GAAP.”

	At and For the Year Ended December 31,			
	2006 (1)	2006 (2)	2005	2004
	(in millions of US\$)	(in millions of reais)		
STATEMENT OF OPERATIONS DATA				
Gross operating revenue	US\$2,233.4	R\$4,775.1	R\$4,219.9	R\$3,634.4
Electricity sales	2,158.3	4,614.4	4,075.4	3,505.1
Electricity supplied for resale	46.9	100.3	91.5	81.7
Other operating revenue	28.3	60.4	53.0	47.6
Deductions from operating revenue	(728.9)	(1,558.3)	(1,423.3)	(1,180.0)
Net operating revenue	1,504.6	3,216.7	2,796.5	2,454.5
Cost of electricity	(521.2)	(1,114.4)	(1,008.3)	(851.7)
Operating costs	(321.1)	(686.5)	(614.0)	(571.5)
Administrative expenses	(373.3)	(798.0)	(586.2)	(559.3)
Service income	289.0	617.8	587.9	472.0
Equity in the results of subsidiaries	81.3	173.9	(1.8)	(10.5)
Financial income (expenses), net	(229.9)	(491.6)	(498.2)	(520.6)
Operating income (loss)	140.4	300.1	87.9	(59.1)
Non-operating income (expenses), net	45.4	97.1	16.7	63.8
Income tax and social contribution	(88.8)	(189.8)	69.4	(48.0)
Reversal of interest on shareholders' equity	4.9	10.4	11.7	1.9
Management remuneration	(2.5)	(5.3)	(7.3)	(1.2)
Extraordinary items, net of tax effect	—	—	—	(244.2)
Minority interest	(58.0)	(124.0)	(201.0)	87.5
Net Income (loss)	US\$41.4	R\$88.5	R\$(22.6)	R\$(199.4)
BALANCE SHEET DATA				
Cash, cash equivalents and marketable securities	US\$234.1	R\$500.5	R\$260.8	R\$219.5
Short-term customers and distributors	345.6	738.9	668.4	631.9
Long-term customers and distributors	134.8	288.3	262.4	175.4
Related parties receivables	100.9	215.7	114.6	70.4
Investments	531.0	1,135.2	1,064.6	664.7
Property, plant and equipment, net	2,114.1	4,520.0	4,421.1	2,858.1
Total assets	4,210.9	9,002.8	8,264.6	5,976.2
Short-term loans, financings and debentures	374.8	801.3	706.8	498.8
Related parties debt	89.4	191.2	421.6	324.2
Long-term loans, financings and debentures (excluding current portion)	926.8	1,981.4	958.9	1,106.3
Minority interest	825.3	1,764.4	1,372.5	788.0
Shareholders' equity	342.9	733.1	1,125.7	164.4

At and For the Year Ended December 31,			
2006 (1)	2006 (2)	2005	2004
(in millions of US\$)	(in millions of reais)		

OTHER FINANCIAL DATA

Net Operating Revenue by Type of Activity

Distribution.....	US\$1,489.6	R\$3,184.8	R\$2,889.1	R\$2,512.4
Generation	149.2	319.0	415.4	393.8
Other	67.1	143.4	0.8	—
Eliminations	(201.3)	(430.4)	(255.4)	(255.2)
Consolidated net operating revenue.....	US\$1,504.6	R\$3,216.8	R\$3,049.1	R\$2,650.9
Adjusted EBITDA (3)	US\$423.2	R\$905.4	R\$823.6	R\$639.5
Adjusted EBITDA margin (4)	28.1%	28.1%	27.0%	24.1%
Net debt (5).....	US\$1,261.1	R\$2,696.2	R\$1,434.2	R\$1,409.4

For the Year Ended December 31,		
2006 (2)	2005	2004

OPERATING DATA

Electricity sales (GWh)			
Residential	4,431	4,104	3,838
Industrial.....	3,244	2,536	2,783
Commercial	2,625	2,465	2,294
Rural	810	709	637
Public sector	727	653	612
Public lighting	678	624	606
Public services.....	521	477	473
Other	45	49	48
Total.....	13,081	11,617	11,291
Conventional supply (GWh) (6).....	835	993	745
Total electricity distributed (GWh)	13,916	12,610	12,036
Total customers (in thousands) (7)	3,152	2,847	2,727
Total installed hydroelectric and thermoelectric capacity (MW).....	770	770	800

- (1) Translated for convenience only using the PTAX-800 exchange rate for *reais* into dollars as reported by the Central Bank at December 29, 2006 of R\$2.138=US\$1.00.
- (2) The financial and other information for 2006 is not comparable with the financial and other information for 2005 as a result of our acquisition of EDEVP, REDECOM and REDESERV on June 30, 2006, our sale of Celtins Energética S.A., which owned three PCHs, on September 31, 2006, and our sale of 10 companies that collectively own 22 of PCHs on October 6, 2006. We have accounted for these acquisitions and dispositions under the purchase method of accounting. Therefore, the assets, liabilities and results of operations of the acquired companies are included in our income statement for periods after the date of acquisition and the assets, liabilities and results of operations of the sold companies are included in our income statement for periods prior to the date of disposition.
- (3) Adjusted EBITDA is not a U.S. GAAP or Brazilian GAAP measure. Our Adjusted EBITDA is presented on a consolidated basis and, therefore, includes 100% of the Adjusted EBITDA of our consolidated subsidiaries, although our interest in several of these subsidiaries is less than 50%. For a description of Adjusted EBITDA, see “Presentation of Financial and Certain Other Information—Financial Statements and Financial Information.” The following table reconciles our Adjusted EBITDA to our net income.

	For the Year Ended December 31,			
	2006 (a)	2006	2005	2004
	(in millions of US\$)	(in millions of reais)		
Net income (loss)	US\$41.4	R\$88.5	R\$(22.6)	R\$(199.4)
Plus:				
Extraordinary items	—	—	—	244.2
Minority interest	(58.0)	(124.0)	201.0	(87.5)
Income tax and social contribution	(88.8)	(189.8)	(69.4)	48.0
Non-operating income (expenses), net	45.4	97.1	(16.7)	(63.8)
Financial income (expense), net	(229.9)	(491.6)	498.2	520.6
Equity in the results of subsidiaries	(81.3)	(173.9)	1.8	10.5
Depreciation and amortization	(134.5)	(287.6)	235.7	167.5
Reversal of interest on shareholders' equity	(4.9)	(10.4)	(11.7)	(1.9)
Adjusted EBITDA	<u>US\$423.2</u>	<u>R\$905.4</u>	<u>R\$823.6</u>	<u>R\$639.5</u>

(a) Translated for convenience only using the PTAX-800 exchange rate for *reais* into dollars as reported by the Central Bank at December 29, 2006 of R\$2.138=US\$1.00.

- (4) Adjusted EBITDA margin equals Adjusted EBITDA divided by net operating revenue.
- (5) Net debt is not a U.S. GAAP or Brazilian GAAP measure. We define net debt as the sum of total short- and long-term loans, financings and debentures (including net related party debt, but excluding regulatory assets) plus accrued interest, less the sum of cash, cash equivalents and marketable securities and net gains from swap transactions. Net debt does not include regulatory assets, which represent expenses that will be compensated in the future through tariff adjustments. The following table reconciles our net debt to our consolidated debt.

	At December 31,			
	2006 (a)	2006	2005	2004
	(in millions of US\$)	(in millions of reais)		
Net Debt:				
Short-term loans, financings and debentures	US\$336.8	R\$720.0	R\$706.8	R\$498.8
Accrued interest	38.0	81.3	29.3	23.8
Long-term loans, financings and debentures	926.8	1,981.4	958.9	1,106.3
Total consolidated debt	1,301.5	2,782.7	1,695.0	1,628.9
Less:				
Cash, cash equivalents and marketable securities	(234.1)	(500.5)	(260.8)	(219.5)
Net gains from swap transactions	20.3	43.4	—	—
Net debt	<u>US\$1,087.7</u>	<u>R\$2,325.6</u>	<u>R\$1,434.2</u>	<u>R\$1,409.4</u>

(a) Translated for convenience only using the PTAX-800 exchange rate for *reais* into dollars as reported by the Central Bank at December 29, 2006 of R\$2.138=US\$1.00.

- (6) Conventional supply means electricity that we supply to other unrelated electricity distribution companies.
- (7) Represents customers that are connected to the distribution network, irrespective of whether the customer has been invoiced at period-end.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our audited consolidated financial statements at and for the years ended December 31, 2006, 2005 and 2004 and the notes thereto included elsewhere in this prospectus, as well as the information presented under "Presentation of Financial and Certain Other Information" and "Selected Financial and Other Information." Our financial statements have been prepared in accordance with Brazilian GAAP, which differs in certain respects from U.S. GAAP. See Annex A—"Summary of Certain Differences in Accounting Practices between U.S. GAAP and Brazilian GAAP" beginning on page A-1 of this prospectus for a description of the main differences between Brazilian GAAP and U.S. GAAP as they relate to us.

The following discussion contains forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from those discussed in the forward-looking statements as a result of various factors, including, without limitation, those set forth in the sections entitled "Forward-Looking Statements" and "Risk Factors."

Overview

Rede is a Brazilian electricity holding company and, through its subsidiaries, engages in the distribution, generation and trading of electricity in Brazil. Our combined distribution concession areas are geographically the largest in Brazil, covering approximately 30% of Brazil's land mass and with a total combined population of approximately 12.5 million. We currently supply electricity to approximately 3.0 million customers in 506 municipalities in six Brazilian states.

In 2006, we recorded gross operating revenue of R\$4,775.1 million, Adjusted EBITDA of R\$905.4 million and net income of R\$88.5 million. In 2006, the amount of electricity that we distributed increased by 12.6% compared to 2005 (from 11,617 GWh to 13,081 GWh).

In 2006, our electricity distribution operations accounted for 98.1% of our total gross operating revenue on a consolidated basis, and include our subsidiaries:

- CEMAT, the sole electricity distribution concessionaire in the state of Mato Grosso, of which we own 37.5% of the total share capital, including 57.5% of its voting share capital;
- CELPA, the sole electricity distribution concessionaire in the state of Pará, of which we own, directly and indirectly, 43.4% of the total share capital, including 65.2% of its voting share capital; and
- CELTINS, the sole electricity distribution concessionaire in the state of Tocantins, of which we own 50.9% of the total share capital, including 70.0% of its voting share capital;

as well as five subsidiaries that operate in various municipalities or regions within the states of São Paulo, Paraná and Minas Gerais, which we manage together as our REDE SUL/SUDESTE operating unit.

In 2006, our electricity generation operations accounted for 7.3% of our total gross operating revenue (prior to intercompany eliminations), and include:

- Rede's indirect ownership of 20.2% of the total share capital, including 42.4% of the voting share capital, of Investco, the leader of the consortium that owns the concession for the Lajeado hydroelectric plant. As a result of our investment in Investco, we are entitled to 45.4% of the total electricity generated by the Lajeado hydroelectric plant, located on the Tocantins River, with a total installed capacity of 902.5 MW.
- Rede's ownership of 61.7% of the total share capital, including 100% of the voting share capital, of Tangará, which owns 64.0% of the concession to operate the Guaporé hydroelectric plant. As a result of our investment in Tangará, we are entitled to 64.0% of the total electricity generated by the Guaporé hydroelectric plant, located on the Guaporé River, with a total installed capacity of 120.0 MW.

During the last three years, we sold the following hydroelectric plants:

- In August 2004, CEMAT transferred its equity interests in Itamarati Norte S.A. – Agropecuária, which owns the Juba I and II hydroelectric plants with a total installed power of 84 MW, to Hobi Participações e

Empreendimentos Ltda, a company affiliated with the BRENNAND Group, for an aggregate purchase price of R\$230 million.

- In December 2004, we transferred our interests in Rosal Energia S.A., which owns the Rosal hydroelectric plant with a total installed power of 55 MW, to Companhia Energética de Minas Gerais – CEMIG, for an aggregate purchase price of R\$134 million.
- In November 2005, CELPA transferred the Curuá-Una hydroelectric power plant to Centrais Elétricas do Norte do Brasil S.A. – ELETRONORTE, or Eletronorte, in exchange for a reduction in the aggregate amount of R\$75.0 million of electricity supply invoices that have remained outstanding to Eletronorte since the Rationing Program.
- On September 21, 2006, we sold our subsidiary Celtins Energética S.A., which owned three PCHs with a combined installed capacity of 15.4 MW, to Tocantins Holdings, Ltda., a Brazilian company affiliated with the BRENNAND Group, for an aggregate purchase price of R\$33.9 million.
- On June 8, 2006, we entered into an agreement to sell 10 of our subsidiaries, as well as our interests in Quatira Energia S.A. and Vale Energética S.A., which collectively owned 22 additional PCHs with a combined total installed capacity of 96.3 MW, to Enel Latin América LLC for an aggregate amount of R\$463.6 million. This transaction closed on October 6, 2006, other than the sale of one of these subsidiaries, Juruena Energia S.A., the purchase of which is conditioned on a final decision in a civil action pending against Juruena Energia S.A. Following the sale of Juruena Energia S.A., we will no longer have any interests in PCHs. For more information related to these transactions, see “History and Corporate Reorganization.”

We acquired REDECOM on June 30, 2006. REDECOM conducts electricity trading operations and is focused on serving “free customers” both inside and outside the concession areas of our distribution companies. “Free customers” are industrial and other large customers that are permitted under current Brazilian regulations to select their electricity supplier. In 2006, REDECOM recorded gross operating revenue of R\$163.4 million and net income of R\$14.7 million.

We acquired REDESERV on June 30, 2006. REDESERV provides services related to the engineering, design and construction of substations and other assets used in providing electricity services. In 2006, REDESERV recorded gross operating revenue of R\$10.9 million and net income of R\$0.3 million.

Electricity Distribution Business

The electricity distribution business in Brazil is capital-intensive and subject to significant regulation, including by ANEEL through the establishment and adjustment of tariffs. We believe that the most important factors that affect the financial and operating performance of our distribution activities are the following:

- the tariffs set by ANEEL from time to time and related regulatory measures;
- economic conditions in Brazil in general and in the states of Pará, Mato Grosso and Tocantins in particular, which affect growth in electricity consumption in our most relevant distribution concession areas;
- our control of operating costs and expenses, including the reduction of electricity losses;
- our capital structure and financing costs; and
- the return on our investments in relation to the capital employed.

We do not control tariff adjustments and revisions, fluctuations in our customer base or demand for electricity. Adverse developments outside of our control related to these factors may adversely effect our revenue and may, therefore, determine the level of our cash flow growth.

Distribution Tariffs

Our distribution companies charge regulated tariffs, and their results are therefore substantially dependent on tariff adjustments approved by ANEEL, as substantially all of our gross operating revenue is derived from sales of electricity to captive customers at regulated tariffs. During 2006, sales to captive customers at regulated tariffs represented 96.6%

of our total volume of electricity distributed and 97.9% of our gross operating revenue. Our distribution companies' concession agreements include provisions for annual adjustments, periodic revisions and extraordinary revisions to the applicable tariffs. For further information regarding regulated tariffs, see "The Brazilian Electric Power Industry—Electricity Distribution Tariffs."

Annual Tariff Adjustments

Annual tariff adjustments occur on the dates established in our distribution companies' concession agreements. CEMAT's adjustments occur in April of each year, CELPA's adjustments occur in August of each year, CELTINS' adjustments occur in July of each year and adjustments to the tariffs of the companies that form part of our REDE SUL/SUDESTE operating unit occur in May of each year, other than adjustments to the tariffs of Força e Luz do Oeste, which occur in February of each year. Prior to February 2005, adjustments to the tariffs of all of the companies that form part of our REDE SUL/SUDESTE operating unit occurred in February of each year.

Annual adjustments are based on the tariff adjustment rate, which we refer to as the Tariff Adjustment Index (*Índice de Reajuste Tarifário*). The Tariff Adjustment Index takes into account changes in two types of costs:

- Parcel A costs, comprised of costs that are outside of our control and include, among other costs, electricity purchase costs, as well as regulatory charges (such as related to the Fuel Consumption Account (*Conta de Consumo de Combustível*, or CCC), the Energy Development Account (*Conta de Desenvolvimento Energética*, or CDE) the global reversion fund (*Reserva Global de Reversão*, or RGR Fund), ANEEL electricity services inspection fees, the Brazilian National Fund for Scientific and Technological Development (*Fundo Nacional de Desenvolvimento Científico e Tecnológico – FNDCT*), and research and development fees) and transmission and connection fees; and
- Parcel B costs, comprised of costs that are within our control (including personnel, materials and third-party services costs) and include, among other things, return on investment related to each one of our concession areas and the expansion of our distribution networks. Parcel B costs are adjusted according to the IGP-M, and reduced by a factor referred to as the "X factor," which is an index related to productivity gains applied to distribution tariffs. The method for calculating the X factor is described in "The Brazilian Electric Power Industry—Electricity Distribution Tariffs."

In 2001, ANEEL introduced an additional factor that we refer to as the Compensation Account Variation in Parcel A (*Conta de Variação de Itens da Parcela A*), or the CVA account. The CVA account complements the Tariff Adjustment Index by recognizing both positive and negative variations in certain components of Parcel A costs in the period between tariff adjustments. When those Parcel A costs exceed the projections that were made at the time our distribution tariffs were adjusted, we are entitled to recover the difference in the next annual adjustment. Similarly, if these costs prove to be less than projected, the resulting gain is offset in the following annual adjustment. When Parcel A costs exceed the projections reflected in our distribution tariffs, we defer the cost increase and record it as an asset on our balance sheet. These costs are recognized as expenses as our tariffs are adjusted. As of December 31, 2006, we had CVA account assets of R\$216.4 million. All of these amounts accrue interest at the SELIC rate.

In September 2004, based on an ANEEL resolution, we recorded an asset on our balance sheet relating to the change in contribution rates and the change to a non-cumulative regime for Social Integration Program (Programa de Integração Social), or PIS, and Contribution for Social Security Financing (Contribuição para Financiamento da Seguridade Social—COFINS), or COFINS, taxes that took effect in December 2002, although the financial impact of this change will be incorporated in our tariffs over a period of up to three years. Commencing with the April 2005 tariff adjustment, the tariff adjustments implemented by CEMAT, CELPA and CELTINS reflect the amortization of a portion of this regulatory asset and include an adjustment in the amount of the PIS/COFINS taxes payable in respect of their distribution activities.

As of December 31, 2006, our distribution companies recorded regulatory assets (which constitute expenses that will be recognized in the future with revenue from future tariff adjustments) in aggregate amounts of R\$93.8 million for CEMAT, R\$30.2 million for CELPA, R\$62.6 million for CELTINS and R\$29.6 million for the companies in our REDE SUL/SUDESTE operating unit.

Periodic Tariff Revisions

Periodic tariff revisions are conducted to (1) maintain the financial equilibrium of our distribution companies, as contemplated in their concession agreements, (2) establish adequate returns on our investments, and (3) determine the X

factor used in calculating our Parcel B costs. Periodic tariff revisions occur periodically as set forth in each of our concession agreements, as follows:

- every four years for CELPA, with the next scheduled periodic tariff revision occurring in August 2007;
- every five years for CEMAT, with the next scheduled periodic tariff revision occurring in April 2008;
- every four years for CELTINS, with the next scheduled periodic tariff revision occurring in July 2008; and
- every four years for each of our subsidiaries that form part of our REDE SUL/SUDESTE operating unit, with the next scheduled periodic tariff revisions occurring in May 2008, other than the periodic adjustments to the tariffs of Força e Luz do Oeste, which will occur in February 2008.

The periodic rate adjustment methodology involves passing through the changes to the Parcel A costs that occurred during the 12-month period prior to the date of the periodic adjustment, together with the following methodology for the calculation of Parcel B costs:

- estimated operating costs of a hypothetical company simulated by ANEEL and serving the same concession area as the electricity distributor under evaluation;
- compensation and depreciation of the concessionaire's assets. The regulatory compensation and depreciation rates are based on the regulatory remuneration base (*Base de Remuneração Regulatória*), which is determined in accordance with criteria established by ANEEL and includes all of the assets that are necessary for performance of the concessionaire's services; and
- calculation of the X factor.

ANEEL approved the regulatory remuneration bases on a definitive basis in 2004 for CELPA and CEMAT, and in 2005 for our other distribution companies. We believe this eliminates uncertainties that the provisional determination of the regulatory remuneration base may cause, which has occurred with various other Brazilian electricity distributors.

Extraordinary Tariff Revisions

In the event of unforeseen changes that jeopardize the economic financial equilibrium of a concessionaire, ANEEL may adjust the concessionaire's tariffs through extraordinary tariff revisions.

In 1999, ANEEL granted an extraordinary tariff revision to compensate distribution companies for the effects of the significant devaluation of the *real* that occurred during that year. In 2001, as a result of financial losses stemming from the Rationing Program, distribution tariffs underwent another extraordinary revision. These tariff increases will be eliminated from tariffs after the earlier of (1) the date that their intended effects are achieved, or (2) the expiration of a maximum term determined by ANEEL that varies from one distributor to another. These tariff increases have been eliminated for our distribution companies. These tariff increases varied between 2.9% and 7.9%.

Tariff Realignment

Until 2002, tariff adjustment rates were applied uniformly to all tariffs and included a subsidy for industrial customers to the detriment of residential customers. In 2002, a tariff realignment was initiated throughout the Brazilian electricity sector, which reduced cross-subsidies between customers at different levels of voltage service. We expect that subsidies to industrial customers will be eliminated entirely through this realignment by the end of 2007.

Tariff for Use of the Distribution System (TUSD)

Some of our distribution companies' customers have the option of becoming "free customers" and choosing their electricity supplier. Potentially free customers represent a small percentage of our total customer base. As of December 31, 2006, we had 16 potentially free customers in our concession areas. During 2006, three of our potentially free customers chose to become free customers. During 2006, approximately 3.4% of our electricity sales by volume and 0.7% of our gross sales revenue were made to potentially free customers.

Potentially free customers that opt to become a free customer will cease to pay electricity tariffs to us, but they will pay tariffs to us for the use of our distribution system, also known as the Distribution Network Use Rate (*Tarifa de Uso do Sistema de Distribuição*), or TUSD. ANEEL has authorized any free customers to cease paying TUSD charges to local distribution companies if that free customer builds its own distribution network and connects it to the interconnected system. If any free customer served by us elects to build its own distribution network, our gross operating revenue may be adversely affected. The reduction of revenue due to the migration of customers to the free market does not generally cause a material reduction in our margins because compensation for our investment comes from TUSD charges, which continue to be paid to us even after a potentially free customer switches to another electricity supplier. We believe that potentially free customers do not represent a significant risk to our business or to our ability to generate cash flow from operations. Part of our strategy is to continue to provide electricity to our customers that elect to become free customers through REDECOM, our electricity trading company, which has been successful in retaining the majority of our customers that have elected to become free customers over the last few years.

The following table shows our gross operating revenue from TUSD charges to free customers and other distribution companies, representing electricity in transit through our network, for the periods indicated. For more information see “The Brazilian Electric Power Industry—Electricity Distribution Tariffs.”

	Year Ended December 31,		
	2006	2005	2004
	(in millions of reais)		
CEMAT	R\$44.1	R\$27.6	R\$12.4
CELPA	13.4	4.6	—
CELTINS	2.8	0.3	—
REDE SUL/SUDESTE	16.3	12.1	3.2
TOTAL	R\$76.3	R\$44.6	R\$15.6

Regulated Tariffs – 2004 through 2006

The following tables illustrate the evolution of tariffs for captive customers during the years indicated and how these variations affected the results of CEMAT, CELPA, CELTINS and the companies in our REDE SUL/SUDESTE operating unit. The tables below reflect adjustments in rates effectively paid by our customers, which take into account both the initial revisions and subsequent adjustments to rates promulgated by ANEEL.

CEMAT	2006	2005	2004
	Annual	Annual	Annual
Type of change	Adjustment	Adjustment	Adjustment
Increase applied	5.17%	13.18%	14.81%
X factor	0.14%	3.87%	2.77%
CELPA	2006	2005	2004
	Annual	Annual	Annual
Type of change	Adjustment	Adjustment	Adjustment
Increase applied	7.66%	4.20%	6.62%
X factor	(0.34%)	(0.13%)	4.0%
CELTINS	2006	2005	2004
	Annual	Annual	Periodic
Type of change	Adjustment	Adjustment	Revision
Increase applied	16.81%	15.06% (1)	14.67% (2)
X factor	1.13%	2.57%	—

(1) Reflects a 15.06% annual tariff adjustment set by ANEEL, plus 10.2% in deferred tariff charges as described below.

- (2) Reflects a 30.53% tariff revision set by ANEEL on a final basis on June 30, 2005, to be implemented as follows: (i) the first revision corresponding to 13.45% was reflected in the 2004 tariff adjustment; (ii) 10.2% was reflected in the 2005 tariff adjustment; and (iii) the remainder of the revision will be recognized in 2006 and 2007, generating Deferred Tariff Reserves (*Receita Tarifária Diferida*), or RTD.

REDE SUL/SUDESTE	2006	2005	2004
Type of change	Annual Adjustment	Annual Adjustment	Periodic Revision
Increase applied:			
Caiuá	(1.20%)	11.82%	(1.54%)
Bragantina	13.31%	14.42%	0.33%
Nacional	6.15%	17.87%	(2.36%)
Força e Luz do Oeste (1)	5.80%	10.25%	(1.48%)
EDEVP	3.27%	14.44%	4.25%
X factor:			
Caiuá	(1.91%)	2.53%	0.82%
Bragantina.....	(2.14%)	2.66%	0.75%
Nacional	(2.26%)	3.11%	0.75%
Força e Luz do Oeste (1)	(1.76%)	2.86%	0.54%
EDEVP	(2.19%)	2.59%	0.62%

- (1) The tariff increase for Força e Luz do Oeste for 2007 was granted on February 1, 2007. the annual adjustment was 1.89% and the X factor was 1.20%.

Electricity Purchased for Resale

We purchase the majority of our electricity through long-term contracts with large Brazilian electricity generation companies. Prices under these long-term contracts are subject to regulation and are currently set through a public auction process conducted periodically and organized by the Electricity Trading Board (*Câmara de Comercialização de Energia Elétrica*), or CCEE. We purchased 9,012 GWh in 2006, 5,587 GWh in 2005 and 665 GWh in 2004 at public auctions. We also purchase electricity through bilateral contracts, including with our generation companies, that we entered into prior to the enactment of the New Electricity Law, which remain in effect.

In addition, we purchased 580 GWh in 2006, 582 GWh in 2005 and 537 GWh in 2004 from the Itaipu power plant at a cost of R\$47.0 million, R\$48.1 million and R\$48.1 million, respectively. Unlike our other electricity contracts, the price of electricity that we purchase from Itaipu is denominated in U.S. dollars. The foreign exchange variations that occur between periodic tariff adjustments are incorporated into distribution tariffs through the CVA account mechanism described above in “—Distribution Tariffs—Annual Tariff Adjustments.” Thus, while our distributor companies may incur electricity purchase costs that are higher than those amounts initially covered in their tariffs, these costs are incorporated into and reimbursed through subsequent tariff adjustments.

Our distribution companies also purchased electricity under initial supply contracts, or initial contracts, until December 31, 2005. These initial contracts were adjusted annually according to the IGP-M on dates coinciding with our distribution companies’ tariff adjustments, so that any increase in these costs was passed on to our customers through distribution tariff increases. The quantity of electricity acquired under initial contracts was reduced annually by 25% of the quantity originally contracted until December 31, 2005. Initial contracts were designed to permit the transition to a free electricity market for distribution companies, provided that they comply with certain limits for the pass-through of costs.

Since the implementation of New Electricity Law in 2004, distributors may only contract to purchase electricity through auctions in the regulated contracting market. Electricity purchase contracts in the regulated contracting market are revised annually according to the Broad Consumer Price Index (*Índice de Preços ao Consumidor Amplo*), or IPCA – as opposed to Parcel B costs of our tariffs that are mostly adjusted based on the IGP-M inflation index. These two indices may present significantly different variations. In accordance with existing regulations, our distribution companies assigned their accounts receivable as collateral for payments due to generators.

Under the New Electricity Law, distribution companies cannot transfer to customers costs for electricity purchases that exceed 103% of demand, as adjusted in accordance with the applicable regulations. Our success in accurately projecting demand will therefore be reflected in our margins, to the extent that the full allocation of our electricity

purchasing costs will depend upon our accurate projection of demand. However, we have an option to cancel up to 4% of the volume contracted through public auctions through the first four years of the auction contracts. We also participate in the MCSD, which allows distributors to transfer surpluses of electricity contracted through the public auctions to distributors that have electricity shortages.

Brazilian and Regional Economic Conditions

The Brazilian economic environment has been characterized by significant variations in economic growth, inflation and currency exchange rates. From 2001 to 2003, Brazil experienced a period of low growth in gross domestic product, or GDP.

The Brazilian economy significantly improved in 2004 as a result of the reduction of interest rates, an increase in exports and reduced political uncertainty relating to the Lula administration. In 2004, Brazilian GDP increased by 4.9%, and the *real* appreciated by 9.0% against the U.S. dollar. In 2004, inflation was 12.4% as measured by the IGP-M, and 7.6% as measured by the IPC-A. An increase in exports and foreign-direct investment resulted in a surplus for Brazil's balance of payments of more than US\$11.0 billion (equivalent to 1.9% of Brazil's GDP for that year), which made it possible for Brazil to reduce its foreign currency-denominated debt, as well as its ratio of exports to foreign currency debt, significantly improving the risk profile of the Brazilian economy.

In 2005, the Brazilian economy continued to improve its principal economic indicators: the *real* appreciated by 13.4% against the U.S. dollar; and inflation for 2005 was 1.2% as measured by the IGP-M, and 5.7% as measured by the IPC-A. However, GDP increased by only 2.3% in 2005. The Central Bank decreased the base interest rate from 19.8% in May 2005 to 18.0% in December 2005.

In 2006, Brazilian GDP grew by 2.9% and the *real* appreciated by 8.5% against the U.S. dollar. In 2006, inflation was 3.9% as measured by the IGP-M, and 3.2% as measured by the IPC-A. During 2006, the Central Bank continued to lower the base interest rate, which averaged 15.0% during 2006.

The following table shows selected economic indicators for the years presented.

	Year Ended December 31,		
	2006	2005	2004
Inflation (IGP-M) (1)	3.9%	1.2%	12.4%
Inflation (IPC-A) (2)	3.1%	5.7%	7.6%
SELIC (3)	15.1%	19.0%	16.2%
TJLP (4)(5)	6.9%	9.8%	9.8%
CDI (6).....	15.0%	18.0%	17.8%
Growth (contraction) in GDP (5).....	2.9%	2.3%	4.9%
Appreciation (depreciation) of the <i>real</i> vs. U.S. dollar .	9.5%	13.4%	8.8%
Period-end exchange rate (R\$/US\$)	2.138	2.341	2.654
Average exchange rate (R\$/US\$) (7).....	2.177	2.434	2.926

Sources: Getulio Vargas Foundation, IBGE, and the Central Bank.

(1) IGP-M is the general market price index measured by the Getulio Vargas Foundation (*Fundação Getúlio Vargas*).

(2) IPC-A is a broad consumer price index measured by IBGE.

(3) SELIC was calculated based on the average rate prevailing during the respective year according to a Central Bank report.

(4) The TJLP (*Taxa de Juros de Longo Prazo*), a long-term interest rate, was calculated on an annualized basis.

(5) Brazilian GDP and TJLP data reflects an official estimate for the year ended December 31, 2006 since this data is not yet available for the year ended December 31, 2006.

(6) The CDI (*Certificado Depositário Interbancário*), an interbank rate, was calculated on an annualized basis.

(7) Represents the average of the commercial selling exchange rates on the last day of each month during the year or period.

As a company with all of its operations in Brazil, our performance is impacted by general economic conditions in Brazil. In particular, the general performance of the Brazilian economy affects demand for electricity, and inflation affects our costs and margins. As we operate predominantly in the Midwestern and Northern regions of Brazil (collectively representing 80.0% of our gross operating revenue from electricity distribution activities in 2006), economic growth in these regions is one of the factors that most affects demand for our electricity and our results of operations.

In particular, electricity distribution in our concession areas shows a strong correlation with growth and development of the economies in the states of Pará, Tocantins and Mato Grosso, as our client base largely consists of captive residential customers in these states. Electricity consumption in the states of Pará, Tocantins and Mato Grosso increased by an annual average of 6.1%, 7.4% and 7.8%, respectively, from 2001 to 2006, significantly higher than the increase in the Brazilian national annual average rate of electricity consumption of 4.2% during the corresponding period. In addition, we believe that these states have significant potential for economic development, which we believe will translate into potential growth in demand for electricity.

Generation – Conditions for the Sale of Electricity

The revenue of hydroelectric generators in Brazil is tied to the amount of electricity that they contract to sell under regulated long-term contracts, which we refer to as “assured energy.” Through the electricity reallocation mechanism (*Mecanismo de Realocação de Energia*), or the MRE, the surplus of electricity generated by plants that exceed their assured electricity is transferred to plants that generate electricity below their assured energy. The ONS coordinates this reallocation mechanism, taking into account nationwide electricity demand and hydrological conditions. See “The Brazilian Electric Power Industry—Regulation of Generation Companies.”

Similarly, the revenue of thermoelectric generators in Brazil is tied to the amount of assured energy that they have contracted to sell. In practice, thermoelectric generators deliver allocated electricity either by generating or purchasing electricity in the spot market through public auctions, the price of which varies based on generating costs, the spot market price of electricity and hydrological conditions. Accordingly, the gross margin of a thermoelectric plant will be based on the difference between the fixed electricity price and either (i) its generation costs, or (ii) the price of electricity on the spot market. If a thermoelectric plant generates electricity in excess of a 5% generation reserve (effective as of 2008), the price of such surplus electricity will be set at the spot market price.

The New Electricity Law created two markets for contracting electricity from a generator: (1) the free contracting market, which serves free customers, traders and generators; and (2) the regulated contracting market, which serves distributors and, as a consequence, their captive customers.

In the free contracting market, prices and terms are freely negotiated between the parties. In the regulated contracting market, prices are set in auctions organized by the CCEE. The electricity purchased in these auctions is based on the projected electricity needs of the distributors. Generators that sell electricity in the regulated contracting market auctions enter into contracts with all of the distributors in the interconnected system that participated in the auction.

Existing electricity and new electricity must be sold in separate auctions in the regulated contracting market. New electricity is derived from new generation projects. Existing electricity refers to the installed capacity in the system at the time the New Electricity Law became effective.

The rights and obligations established in the bilateral contracts executed by the distributors prior to the implementation of the New Electricity Law remain valid.

Financial Presentation and Critical Accounting Policies

Presentation of Financial Statements

Our financial statements have been prepared in accordance with Brazilian GAAP, which differs in certain respects from U.S. GAAP. See Annex A—“Summary of Certain Differences Between U.S. GAAP and Brazilian GAAP” for a description of these principal differences.

Critical Accounting Policies

In preparing our consolidated financial statements, we have made certain estimates and assumptions about inherently uncertain matters, which estimates and assumptions we consider reasonable based on our historical experience. Our financial presentation may be materially affected if we were to use different estimates or if we were to change our estimates in response to future events. To provide an understanding of how our management forms judgments about future events, including the factors and assumptions underlying those estimates, we identified the following critical accounting policies.

Revenue Recognition

Although we bill our customers on various dates throughout each month, revenue from electricity tariffs to final customers—including residential, industrial, commercial, rural and public sector customers—is recorded in the month in which the electricity is actually delivered to the customer. Revenue for electricity delivered to final customers between the meter-reading date and the end of a given month are estimated and recorded as revenue during the month in which the electricity is delivered to the customer.

Property, Plant and Equipment

We record fixed assets, including property, plant and equipment, at their cost of acquisition or construction and depreciate them over their estimated useful lives. We may be required to reduce the estimated useful life of our generation facilities if one of our generation subsidiaries loses a long-term contract and is not able to replace it with another under similar conditions or if there is a sustained reduction in market prices for energy generated. We may also reduce the estimated useful life of distribution assets if we lose, or are unable to renew, a long-term concession agreement for one of our distribution companies. Furthermore, we may reduce the estimated useful life of a fixed asset if it incurs significant property damage or is subject to a significant mechanical failure.

We retained an appraisal company and an engineering firm to appraise the market value of our hydroelectric plants, thermoelectric plants, transmission lines, substations and other equipment. Based on these studies, we revalued our property, plant and equipment as of May 31, 2005, increasing the value of our permanent assets by R\$1,505.4 million (net of depreciation and write-offs). However, this revaluation will not be automatically reflected in our tariffs or regulatory remuneration base, which includes all of the assets that are necessary for performance of our services and may only be adjusted by ANEEL.

Deferred Taxes

We record deferred tax assets and liabilities based on the temporary differences between the book value and the tax base of our assets and liabilities. We regularly review the recoverability of our deferred tax assets. Under Brazilian GAAP, a tax asset is recognized only if it is more likely than not to be realized. Our management believes that the realization of our net deferred tax assets is probable. However, their value is subject to uncertainty because it depends on the extent to which they can be realized, which in turn depends on the amount of profits we generate in future periods, which can only be estimated. The amount of deferred tax assets deemed realizable may, however, be reduced if estimates of future taxable profits are reduced for the period in which the deferred tax assets were to be used.

Reserves for Contingencies

We are currently party to certain legal proceedings. We account for the probable cost of resolving these claims, as discussed in note 22 to our consolidated financial statements. In calculating these accruals, we consult with our external and internal legal counsel and analyze possible results, taking into account applicable litigation and settlement strategies. We annually request a report of the proceedings being handled by outside legal counsel, which report identifies proceedings for which we have probable potential liability. Accounting for contingencies requires significant judgment by our management concerning the estimated probabilities and ranges of exposure to potential liability. The outcome of these contingencies could vary significantly and could materially impact our results of operations, cash flows and financial position.

Financial Instruments

We use financial instruments such as derivatives to reduce the risks associated with the exposure of our assets and liabilities.

Provision for Doubtful Accounts

In accordance with ANEEL's accounting methodologies, we record a provision for doubtful accounts based on our estimates of accounts receivable that we will not likely realize: (1) residential customers that are in arrears for more than 90 days; (2) commercial customers that are in arrears for more than 180 days; and (3) industrial, rural and other customers that are in arrears for more than 360 days. As of June 30, 2005, we no longer create, and have reversed all existing provisions for doubtful accounts in relation to public sector electricity sales, as state and municipal governments may never be declared bankrupt in Brazil, and we believe that these governments will eventually pay us their outstanding electricity bills.

We have entered into agreements with various federal, state and local governmental entities to settle certain overdue accounts receivable. Under these agreements, these governmental entities have agreed to pay their overdue account balances in installments over time. We have also obtained certain judicial orders (*precatórios*) that are necessary for these governmental entities to request appropriations in their budgeting process. We believe that our current provision for doubtful accounts is sufficient to cover any losses that we may incur in collecting accounts receivable from our customers (excluding our public sector customers as set forth above.)

As of December 31, 2006, our provisions for doubtful accounts totaled R\$75.2 million, or 23.6% of our total accounts receivable that were more than 90 days past due as of that date.

Employee Benefits

The actuarial liabilities related to our plans for retirement and pension benefits are recorded according to the provisions of CVM Instruction No. 371/2000, based on actuarial studies developed by independent actuaries. These studies were based on the services rendered by the employees, recognized along the time of the employees' service. The projected credit unit method considers each time of service as a base benefit unit in the calculation of the final obligation. The calculation also takes into account numerous other factors, including estimated inflation rates, estimated mortality rates and estimated salary and benefit increases.

Tariff Revisions

We record revenue based on estimates of the periodic, provisional and final tariff adjustments to which our companies are subject. The actual adjustments imposed by ANEEL at the time of a subsequent tariff revision may differ substantially due to ANEEL's discretion in the determination of tariffs. ANEEL approved the regulatory remuneration bases of our distribution companies on a final basis in 2003 (for CELPA and CEMAT only) and 2004. Future differences between our management's estimates and ANEEL's final determinations may generate further adjustments to recorded revenue.

Goodwill

The positive and negative goodwill from the acquisition of ownership interests in companies is calculated and recognized in accordance with the Brazilian Corporation Law and applicable laws and regulations.

Results of Operations

The following discussion of our results of operations is based on our financial statements prepared in accordance with Brazilian GAAP. The following table sets forth certain items derived from our statements of income shown as a percentage of our net operating revenue for the periods and years indicated.

	Year Ended December 31,		
	2006	2005	2004
	(in percentages)		
Gross operating revenue:.....	148.4	150.9	148.1
Electricity sales.....	143.5	145.7	142.8
Electricity supplied for resale.....	3.1	3.3	3.3
Other operating revenue.....	1.9	1.9	1.9
Deductions from operating revenue.....	(30.8)	(32.1)	(32.1)
Net operating revenue.....	100.0	100.0	100.0
Cost of electricity.....	(34.6)	(36.1)	(34.7)
Operating costs.....	(21.3)	(22.0)	(23.3)
Operating expenses.....	(24.8)	(21.0)	(22.8)
Service income.....	19.2	21.0	19.2
Equity in the results of subsidiaries.....	5.4	(0.1)	(0.4)
Financial income (expenses), net.....	(15.3)	(17.8)	(21.2)
Operating income (loss).....	9.3	3.1	(2.4)
Non-operating income, net.....	3.0	0.6	2.6
Income and social contribution taxes.....	(5.9)	2.5	(2.0)
Reversal of interest on shareholders' equity.....	0.3	0.4	0.1
Extraordinary item, net of tax effect.....	—	—	—
Minority interest.....	(3.9)	(7.2)	3.6
Net income (loss).....	2.8	(0.8)	(8.1)

In the following discussion, references to increases or decreases in any year or period are made by comparison with the corresponding prior year or period, except as the context otherwise indicates.

Explanation of Certain Income Statement Line Items

Gross Operating Revenue

Gross operating revenue consists of the following:

- revenue from the sale of electricity to final customers;
- revenue from the supply of electricity to agents that resell the electricity to third parties; and
- other operating revenue, consisting of revenue from the use of our distribution network by free customers and other concessionaires, revenue from the rental of line poles and the rendering of supplemental maintenance services to public and private customers.

In 2006, 96.6% of our gross operating revenue was derived from electricity sales to final customers, 2.1% from the supply of electricity to agents for resale to third parties and 1.3% from other operating revenue.

Deductions from Operating Revenue

Deductions from operating revenue consist of the following:

- taxes levied on gross operating revenue, such as Imposto de Circulação de Mercadorias e Serviços, or ICMS, which represented 63.6% of our deductions from gross operating revenue in 2006, and PIS and COFINS taxes, which collectively represented 33.9% of our deductions from gross operating revenue in 2006. In 2004, the

combined rate of PIS/COFINS taxes increased from 3.65% to 9.25%. ANEEL allowed us to defer and amortize a portion of this increase over a 12-month period ending July 2006;

- regulatory charges, such as:
 - the RGR Fund, a regulatory charge paid by concessionaires to develop a fund managed by Eletrobrás to finance expropriations, expansion, public service improvements and the reversion of assets necessary to a concession to the state upon the termination of the concession, which represented 2.4% of our deductions from gross operating revenue in 2006; and
 - the emergency capacity charge (*Encargo de Capacidade Emergencial*), a regulatory fee paid by distributors to cover costs relating to contracting emergency electricity during the Rationing Program, which we recorded as part of deductions from operating revenue—other in our income statement. This charge was reduced by 35.0% in July 2005 and eliminated effective December 22, 2005.

These deductions are classified in our tariff adjustments as items beyond our control and, in the event of their modification, the changes may either be automatically reflected in our tariffs, incorporated into our next annual tariff adjustment (as is the case of ICMS) or included in our next periodic tariff revision.

Cost of Purchased Electricity

The cost of purchased electricity is comprised of costs directly related to the purchase of electricity by our companies. These costs relate primarily to (1) the purchase of electricity for resale, which represented 80.6% of our cost of purchased electricity in 2006, and (2) network use charges for transmission and connection, which represented 19.4% of our cost of purchased electricity in 2006.

Operating Costs

Operating costs include the following:

- depreciation and amortization, which represented 40.8% of our operating costs in 2006;
- supplies for the production of electricity, which consists primarily of fuel for the thermoelectric plants that serve our isolated systems, which represented 34.2% of our operating costs in 2006;
- third-party services, including payments made for programmed and emergency maintenance services, meter reading and call center services performed for us by third parties, which represented 26.4% of our operating costs in 2006;
- personnel costs, which represented 14.4% of our operating costs in 2006;
- leasing and rents, which represented 13.6% of our operating costs in 2006; and
- materials, which represented 4.0% of our operating costs in 2006.

Our other operating costs, which represented an offset to our operating costs in an amount equal to 33.4% of our operating costs in 2006, include the amount of the CCC subsidy that we receive and our contributions to the CDE account.

The CCC account is a regulatory charge paid by distribution companies that is used to subsidize fossil fuel costs of the thermoelectric power plants located in isolated systems. Distributors are responsible for collecting this charge from end-customers and passing it through to the Brazilian government, which uses these amount to subsidize thermoelectric power plants located in isolated systems (including our thermoelectric power plants in Mato Grosso and Pará) and to promote electricity generation in the regions in which they are located. Expenses relating to the CCC account are allocated among the distribution companies in proportion to the size of their markets and are passed through to customers through tariff adjustments under the rules governing the CVA adjustments to Parcel A costs. We record our contributions to the CCC account as operating expenses and the CCC subsidies that we receive as a reduction to our operating costs.

The CDE is a regulatory charge that distribution companies pay to fund the Incentive Program to Foster the Development of Alternative Sources of Electricity (*Programa de Incentivo às Fontes Alternativas de Energia Elétrica*), or the PROINFA program, and the Light for All Program.

We account for third-party services, personnel and materials as operating costs or operating expenses, depending on whether they relate to our direct operating activities.

Operating Expenses

Operating expenses are those expenses not related to our direct operating activities and are comprised of:

- selling expenses, primarily consisting of third-party services and personnel providing sales services and our provision for doubtful accounts, which represented 18.2% of our operating expenses in 2006;
- general and administrative expenses, primarily consisting of third-party services, personnel and taxes relating to our administrative activities, which represented 39.8% of our operating expenses in 2006; and
- other operating expenses, primarily consisting of contributions required by ANEEL to the CCC account, the Energy Efficiency Program (*Programa de Eficiência Energética*), or PEE, and research and development programs, which represented 42.0% of our operating expenses in 2006.

Year Ended December 31, 2006 Compared to Year Ended December 31, 2005

Gross Operating Revenue

Our gross operating revenue increased by 13.2% to R\$4,775.1 million in 2006 from R\$4,219.9 million in 2005. The R\$555.2 million increase in gross operating revenue resulted primarily from (1) a R\$540.1 million increase in revenue from electricity sales to final customers, and (2) to a lesser extent, a R\$8.8 million increase in electricity supplied for resale and a R\$7.4 million increase in other revenue.

Electricity Sales

Our gross operating revenue from electricity sales to final customers increased by 13.3% to R\$4,614.4 million in 2006 from R\$4,074.3 million in 2005, primarily due to:

- a 44.9% increase in electricity sales to final customers by our REDE SUL/SUDESTE operating unit to R\$816.4 million in 2006 from R\$563.6 million in 2005;
- a 7.1% increase in electricity sales to final customers by our CELPA operating unit to R\$1,618.0 million in 2006 from R\$1,510.4 million in 2005;
- a 19.8% increase in electricity sales to final customers by our CELTINS operating unit to R\$411.9 million in 2006 from R\$343.9 million in 2005; and
- our acquisition of REDECOM on June 30, 2006, which resulted in our recording R\$58.4 million in electricity sales to final customers in 2006.

The positive effects of these increases was partially offset by a 2.8% decline in electricity sales to final customers by our CEMAT operating unit to R\$1,527.7 million in 2006 from R\$1,571.1 million in 2005.

The following table sets forth a breakdown of our gross operating revenue from electricity sales and sales volumes of electricity by category of customer:

	Year Ended December 31,			
	2006		2005	
	(in millions of reais)	(in GWh)	(in millions of reais)	(in GWh)
Residential	R\$1,727.0	4,431	R\$1,557.6	4,104
Industrial	853.1	3,244	745.8	2,536
Commercial	1,104.6	2,625	1,023.2	2,465
Rural.....	195.0	810	174.5	709
Public sector	281.4	727	247.2	653
Public lighting.....	137.7	678	123.9	624
Public service.....	133.7	521	117.0	477
Own consumption.....	—	45	—	49
Other electricity sales revenue	181.9	—	85.1	—
Total electricity sales	R\$4,614.4	13,081	R\$4,074.3	11,617

REDE SUL/SUDESTE. Gross operating revenue from electricity sales to final customers by our REDE SUL/SUDESTE operating unit increased in 2006, primarily as a result of:

- a 41.5% increase in electricity sales to residential customers, as a result of (1) a 35.1% increase in the volume of electricity consumed by residential customers to 932 GWh in 2006 from 688 GWh in 2005 due to a 37.0% increase in the number of residential customers to approximately 493,000 at December 31, 2006 from approximately 360,000 at December 31, 2005, principally as a result of our acquisition of EDEVP on June 30, 2006, the effects of which were partially offset by a 1.4% decline in average consumption by residential customers in 2006, and (2) a 4.7% increase in the average tariff paid by residential customers.
- a 46.5% increase in electricity sales to industrial customers, primarily as a result of (1) a 32.7% increase in the volume of electricity consumed by industrial customers to 743 GWh in 2006 from 560 GWh in 2005 due to a 50.6% increase in the number of industrial customers, principally as a result of our acquisition of EDEVP on June 30, 2006, the effects of which were partially offset by an 11.9% decline in average consumption by industrial customers in 2006, and (2) a 10.4% increase in the average tariff paid by industrial customers.
- a 41.5% increase in electricity sales to commercial customers, as a result of (1) a 31.9% increase in the volume of electricity consumed by commercial customers to 459 GWh in 2006 from 348 GWh in 2005 due to a 35.7% increase in the number of commercial customers, principally as a result of our acquisition of EDEVP on June 30, 2006, the effects of which were partially offset by a 2.8% decline in average consumption by commercial customers in 2006, and (2) a 7.2% increase in the average tariff paid by commercial customers.

CELPA. Gross operating revenue from electricity sales to final customers by our CELPA operating unit increased in 2006, primarily as a result of:

- a 7.6% increase in electricity sales to residential customers, as a result of (1) a 5.5% increase in the average tariff paid by residential customers, and (2) a 2.0% increase in the volume of electricity consumed by residential customers to 1,806 GWh in 2006 from 1,771 GWh in 2005 due to a 4.7% increase in the number of residential customers to approximately 1,215,000 at December 31, 2006 from approximately 1,160,000 at December 31, 2005, principally as a result of the Light for All Program, the effects of which were partially offset by a 2.6% decline in average consumption by residential customers in 2006.
- a 6.0% increase in electricity sales to commercial customers, as a result of (1) a 3.0% increase in the average tariff paid by commercial customers, and (2) a 3.0% increase in the volume of electricity consumed by commercial customers to 1,044 GWh in 2006 from 1,014 GWh in 2005 due to a 4.3% increase in the number of commercial customers, the effects of which were partially offset by a 1.3% decline in average consumption by commercial customers in 2006.

CELTINS. Gross operating revenue from electricity sales to final customers by our CELTINS operating unit increased in 2006, primarily as a result of:

- a 19.2% increase in electricity sales to residential customers, as a result of (1) a 14.8% increase in the average tariff paid by residential customers, and (2) a 3.8% increase in the volume of electricity consumed by residential customers to 357 GWh in 2006 from 344 GWh in 2005 due to a 5.9% increase in the number of residential customers to approximately 272,000 at December 31, 2006 from approximately 257,000 at December 31, 2005, principally as a result of the Light for All Program, the effects of which were partially offset by a 2.0% decline in average consumption by residential customers in 2006.
- a 21.0% increase in electricity sales to commercial customers, as a result of (1) a 16.9% increase in the average tariff paid by commercial customers, and (2) a 3.6% increase in the volume of electricity consumed by commercial customers to 204 GWh in 2006 from 197 GWh in 2005, primarily due to a 3.1% increase in the number of commercial customers in 2006.

CEMAT. Gross operating revenue from electricity sales to final customers by our CEMAT operating unit declined in 2006, primarily as a result of:

- an 8.3% decline in electricity sales to industrial customers, primarily as a result of a 10.1% decline in the volume of electricity consumed by industrial customers to 765 GWh in 2006 from 851 GWh in 2005 due to an 11.4% decrease in average consumption by industrial customers as a result of a downturn in agribusiness in the state of Mato Grosso (which is the largest source of income in the state), the effects of which were partially offset by a 1.4% increase in the number of industrial customers. The effects of the decrease in the volume of electricity consumed by industrial customers were partially offset by a 2.0% increase in the average tariff paid by industrial customers.
- a 1.5% decline in electricity sales to residential customers, primarily as a result of a 4.2% decline in the average tariff paid by residential customers as a result of the tariff realignment described above under the caption “—Electricity Distribution Business—Distribution Tariffs—Tariff Realignment,” the effects of which were partially offset by a 2.8% increase in the volume of electricity consumed by residential customers to 1,336 GWh in 2006 from 1,300 GWh in 2005 due to a 4.0% increase in the number of residential customers to approximately 660,000 at December 31, 2006 from approximately 635,000 at December 31, 2005, principally as a result of the Light for All Program, the effects of which were partially offset by a 1.2% decline in average consumption by residential customers in 2006.
- a 1.5% decline in electricity sales to commercial customers, primarily as a result of a 2.7% decline in the average tariff paid by commercial customers as a result of the tariff realignment described above under the caption “—Electricity Distribution Business—Distribution Tariffs—Tariff Realignment,” the effects of which were partially offset by a 1.2% increase in the volume of electricity consumed by commercial customers to 918 GWh in 2006 from 907 GWh in 2005 due to a 0.6% increase in the number of commercial customers and a 0.6% increase in average consumption by commercial customers in 2006.

Electricity Supplied for Resale

Our gross operating revenue from the supply of electricity to agents for resale increased by 9.6% to R\$100.3 million in 2006 from R\$91.5 million in 2005, primarily as a result of a 30.4% increase in the average price that we received for electricity supplied to agents for resale to R\$120.0 per MWh in 2006 from R\$92.1 per MWh in 2005, the effects of which were partially offset by a 15.1% decline in the volume of electricity supplied to agents for resale to 835 GWh in 2006 from 993 GWh in 2005.

Other Revenue

Our other revenue increased by 14.0% to R\$60.4 million in 2006 from R\$53.0 million in 2005, primarily due to the increase in our rental income for our line poles as a result of the expansion of telephone and cable television services.

Deductions from Operating Revenue and Net Operating Revenue

Deductions from operating revenue increased by 9.5% to R\$1,558.3 million in 2006 from R\$1,423.3 million in 2005. In 2006, deductions from operating revenue represented 32.6% of our gross operating revenue, compared to 33.7% in 2005. This increase is primarily related to the increase in our gross operating revenue.

Our net operating revenue increased by 15.0% to R\$3,216.7 million in 2006 from R\$2,796.5 million in 2005.

Cost of Electrical Energy Services

The cost of electrical energy services increased by 10.5% to R\$1,114.4 million in 2006 from R\$1,008.3 million in 2005. As a percentage of net operating revenue, our cost of electrical energy services decreased to 34.6% during 2006 from 36.1% during 2005.

Cost of Electricity Purchased for Resale

Our cost of electricity purchased for resale increased by 10.5% to R\$898.0 million in 2006 from R\$812.6 million in 2005, primarily due to a 13.7% increase in the volume of electricity purchased to 13,341 GWh in 2006 from 11,731 GWh in 2005, primarily as a result of (1) the increase in demand for electricity by our customers, and (2) to a lesser extent, our purchase of electricity from the PCHs which we sold to Tocantins Holdings, Ltda. in September 2006 and Enel Latin América LLC in October 2006. The effect of this increase was partially offset by a 5.7% decrease in average tariffs paid for electricity to R\$64.7 per MWh in 2006 from R\$68.4 per MWh in 2005, primarily as a result of annual price adjustments made in accordance with our contracts and the replacement of energy purchased under our initial contracts, which expired in December 2005, with energy purchased at auction.

In addition to our purchases of electricity from third parties, our generation operations supplied our distribution companies with 1,962 GWh in 2006 and 1,986 GWh in 2005 generated by the Lajeado hydroelectric plant and 527 GWh in each of 2006 and 2005 generated by the Guaporé hydroelectric plant.

Electricity Transmission Costs

Electricity transmission costs increased by 10.5% to R\$216.4 million in 2006 from R\$195.8 million in 2005, primarily due to a 13.7% increase in the volume of electricity purchased in 2006. The effects of this increase were partially offset by lower average transmission tariffs as a result of the expiration of our initial contracts in December 2005, under which we paid relatively higher transmission charges.

Operating Costs

Operating costs increased by 11.8% to R\$686.5 million in 2006 from R\$614.0 million in 2005. As a percentage of net operating revenue, our operating costs declined to 21.3% in 2006 from 22.0% in 2005. The increase in our operating costs was primarily due to:

- a 24.5% increase in depreciation and amortization to R\$275.8 million in 2006 from R\$221.5 million in 2005, as a result of the revaluation of our permanent assets during the second quarter of 2005 as required by CVM regulations; and
- an 18.8% increase in third-party services to R\$188.3 million in 2006 from R\$158.5 million in 2005, primarily due to (1) the restructuring of our operations in connection with our unbundling process, and (2) the increased volume of third-party services we use to serve the increased number of customers that use our services as a result of the implementation of the Light for All Program.
- an 11.3% decrease in other operating costs to R\$233.1 million in 2006 from R\$262.8 million in 2005, primarily due to the decline of our CCC subsidies as a result of upgrades to some of the thermoelectric plants in our isolated systems, principally in Mato Grosso, which increased the efficiency of these plants and resulted in a reduction in the volume of fuel consumed by these plants.

These effects were partially offset by:

- a 15.9% decrease in personnel costs to R\$97.3 million in 2006 from R\$115.6 million in 2005, primarily as result of the centralization of engineering and administrative personnel in our headquarters and the implementation of new technologies to increase the efficiency of our operations;
- a 4.5% decrease in supplies for production of electricity to R\$238.9 million in 2006 from R\$250.2 million in 2005, primarily as a result of the increased efficiency of some of the thermoelectric plants in our isolated systems, which resulted in a reduction in the volume of fuel consumed by these plants; and

- an 8.0% decrease in rentals and leasing payments to R\$92.1 million in 2006 from R\$100.1 million in 2005 as a result of our decision to rent, rather than lease, our vehicle fleet, which reduced maintenance expenses relating to our vehicle fleet.

Operating Expenses

Operating expenses increased by 36.1% to R\$798.0 million in 2006 from R\$586.2 million in 2005. As a percentage of net operating revenue, our operating expenses increased to 24.8% in 2006 from 21.0% in 2005. Our operating expenses increased as a result of:

- a 34.4% increase in other operating expenses to R\$335.0 million in 2006 from R\$249.2 million, primarily due to (1) a R\$61.3 million increase in our contributions to the CCC account as a result of higher costs of fuels used by thermoelectric power plants in the isolated systems during 2006 and higher consumption of thermoelectric energy in the regions supplied by isolated systems, (2) a R\$20.7 million increase in other expenses, the most significant element of which was a R\$7.4 million increase in Financial Compensation for the Use of Hydrological Resources (*Compensação Financeira pelo Uso de Recursos Hídricos*) payments, and (3) a R\$9.3 million increase in contributions to the PEE and contributions to research and development programs;
- an 85.7% increase in selling expenses to R\$145.1 million in 2006 from R\$78.1 million in 2005, primarily due to (1) our provision for doubtful accounts of R\$18.3 million in 2006 compared to the negative provision for doubtful account of R\$28.9 million in 2005 that resulted from the effects of the reversal of our provision for doubtful accounts with respect to past due accounts receivable of state and municipal governments with which we entered into settlement agreements, (2) a R\$17.6 million increase in the cost of third-party services as a result of the restructuring of our operating activities, which we expect will result in greater efficiency in our operations and reduced expenses in future periods; and
- a 22.8% increase in general and administrative expenses to R\$317.9 million in 2006 from R\$258.9 million in 2005, primarily as a result of (1) a R\$29.2 million increase in third-party services due to the increased volume of third-party services we use to serve the increased number of customers that use our services as a result of the implementation of the Light for All Program, (2) a R\$10.6 million increase in taxes, primarily as a result of the abandonment by CELPA of a challenge to payment of Tax on Bank Account Transactions (*Contribuição Provisória sobre Movimentação ou Transmissão de Valores e de Créditos e Direitos de Natureza Financeira*), or CPMF, taxes, and (3) a R\$9.3 million increase in lease and rents payments due to the increased number of vehicles that we rent as a result of the increase in travel by our supervisory personnel following our consolidation of our administrative operations to fewer physical locations.

Service Income

As a result of the foregoing, our service income increased by 5.1% to R\$617.8 million in 2006 from R\$587.9 million in 2005. As a percentage of net operating revenue, service income declined to 19.2% in 2006 from 21.0% in 2005.

Equity in the Results of Subsidiaries

Equity in the results of subsidiaries was a gain of R\$174.0 million in 2006 compared to an expense of R\$1.8 million in 2005. This R\$175.8 million increase was due to (1) a R\$152.1 million gain as a result of the corporate restructuring of our interests in Rede Lajeado which resulted in the recognition of goodwill related to the conversion of indebtedness owed to Eletrobrás into equity of Rede Lajeado and non-voting interests, and (2) a R\$32.1 million gain as a result of the recognition of income of related to our sale of the PCHs, which was partially offset by the amortization of R\$14.4 million of goodwill associated with the PCHs.

Financial Expenses, Net

Our net financial expenses decreased by 1.3% to R\$491.6 million in 2006 from R\$498.2 million in 2005. This decrease was primarily due to:

- a R\$72.6 million increase in active interest, primarily as a result of (1) R\$40.2 million of interest that accrued during 2006 on the portion of our regulatory assets relating to tariff adjustments for CELTINS that ANEEL required us to implement over three years rather than immediately, and (2) a R\$7.0 million increase in penalties,

finances and interest as a result of our entering into settlement agreements with respect to past due accounts receivable with some state and municipal governments;

- a gain of R\$0.8 million in monetary variation in 2006 compared to a loss of R\$50.3 million in 2005, primarily as a result of declines in the CDI rate and the TJLP rate in 2006;
- a R\$35.0 million decrease in net monetary variation and late payment penalties related to electricity purchases, which relates to delays in our payment of our obligations to Eletronorte as a result of the Rationing Program, as a result of the decrease in the outstanding balance of these obligations and declines in the CDI rate and the TJLP rate in 2006; and
- a R\$32.3 million increase in income from marketable securities, primarily as a result of an increase in the balances of these investments.

The positive effects of these changes were partially offset by:

- a R\$90.3 million increase in debt charges as a result of the increase in the outstanding amount of our indebtedness in 2006, principally as a result of our incurrence of indebtedness under the IDB credit facilities and the issuance of US\$100 million of notes units by CELPA and CEMAT; and
- a R\$70.9 million increase in interests and fines as a result of our settlement of some of our outstanding tax obligations under the Tax Recovery Program (*Programa de Recuperação Fiscal*), or REFIS; and the Payment in Installments Scheme (*Parcelamento Especial*), or PAES, in 2006.

Non-Operating Income, Net

Our net non-operating income increased to R\$97.1 million in 2006 from R\$16.7 million in 2005, primarily as a result of the sale of 20 of our PCHs to Enel Latin América LLC and three of our PCHs to Tocantins Holdings, Ltda.

Income and Social Contribution Taxes

Our income and social contribution taxes were an expense of R\$189.8 million in 2006 compared to income of R\$69.4 million in 2005. This increase primarily resulted from our higher taxable income in 2006 and the write-off of the portion of our deferred tax credits that exceeded the aggregate amount of tax credits that we believed we would be able to recover over a 10-year period.

Minority Interest

Minority interest was an expense of R\$124.0 million in 2006, compared to R\$201.0 million during 2005, as result of a 38.3% decrease in the net income of our subsidiaries in 2006 compared to 2005.

Net Income (Loss)

As a result of the foregoing, we recorded net income of R\$88.5 million during 2006, compared to a net loss of R\$22.6 million during 2005. As a percentage of net operating revenue, net income was 2.8% in 2006 compared to net loss of (0.7)% in 2005.

Year Ended December 31, 2005 Compared to Year Ended December 31, 2004

Gross Operating Revenue

Our gross operating revenue increased by 16.1% to R\$4,219.9 million in 2005 from R\$3,634.4 million in 2004. The R\$585.4 million increase in gross operating revenue consisted of (1) a R\$570.3 million increase in revenue from electricity sales to final customers, (2) a R\$9.8 million increase in electricity supplied to agents for resale, and (3) a R\$5.4 million increase in other revenue.

Electricity Sales

Our gross operating revenue from electricity sales to final customers increased by 16.3% to R\$4,074.3 million in 2005 from R\$3,504.0 million in 2004, primarily due to:

- a 13.9% increase in electricity sales to final customers by our CEMAT operating unit to R\$1,571.3 million in 2005 from R\$1,380.0 million in 2004;
- a 11.7% increase in electricity sales to final customers by our CELPA operating unit to R\$1,510.4 million in 2005 from R\$1,352.7 million in 2004;
- a 25.9% increase in electricity sales to final customers by our CELTINS operating unit to R\$343.7 million in 2005 from R\$273.1 million in 2004; and
- an 8.9% increase in electricity sales to final customers by our REDE SUL/SUDESTE operating unit to R\$563.7 million in 2005 from R\$517.5 million in 2004.

The following table sets forth a breakdown of our gross operating revenue from electricity sales and sales volumes of electricity by category of customer:

	Year Ended December 31			
	2005		2004	
	(in millions of <i>reais</i>)	(in GWh)	(in millions of <i>reais</i>)	(in GWh)
Residential	R\$1,557.6	4,104	R\$1,368.6	3,838
Industrial	745.8	2,536	690.9	2,783
Commercial	1,023.2	2,465	887.7	2,294
Rural	174.5	709	141.0	637
Public sector	247.2	653	212.1	612
Public lighting	123.9	624	115.0	606
Public service	117.0	477	107.9	473
Own consumption	—	49	—	48
Other electricity sales revenue	85.1	—	(19.2)	—
Total electricity sales	<u>R\$4,074.3</u>	<u>11,617</u>	<u>R\$3,504.0</u>	<u>11,292</u>

Other electricity sales revenue was negative in 2004 due to payments that were deducted directly from our electricity sales revenue (as opposed to a net financial expense) to repay a loan from the Brazilian National Bank for Economic and Social Development (*Banco Nacional de Desenvolvimento Econômico e Social*), or BNDES, to cover 90.0% of our losses arising from reduced electricity sales during the Rationing Program, as well as excess non-manageable costs (Parcel A costs) incurred from January through October 2001.

CEMAT. Gross operating revenue from electricity sales to final customers by our CEMAT operating unit increased in 2005 primarily as a result of:

- a 14.4% increase in electricity sales to residential customers as a result of (1) a 7.4% increase in the volume of electricity consumed by residential customers to 1,300 GWh in 2005 from 1,210 GWh in 2004 due to a 5.0% increase in the number of residential customers to approximately 635,000 at December 31, 2005 from approximately 605,000 at December 31, 2004, principally as a result of the Light for All Program, and a 2.3% increase in average consumption by residential customers in 2005, and (2) a 6.5% increase in the average tariff paid by residential customers.
- a 16.5% increase in electricity sales to commercial customers as a result of (1) a 9.4% increase in the volume of electricity consumed by commercial customers to 907 GWh in 2005 from 829 GWh in 2004 due to a 5.9% increase in average consumption by commercial customers in 2005 and a 3.4% increase in the number of commercial customers in 2005, and (2) a 6.5% increase in the average tariff paid by commercial customers.

CELPA. Gross operating revenue from electricity sales to final customers by our CELPA operating unit increased in 2005 primarily as a result of:

- a 10.2% increase in electricity sales to residential customers as a result of (1) a 6.8% increase in the volume of electricity consumed by residential customers to 1,771 GWh in 2005 from 1,658 GWh in 2004 due to a 3.8% increase in the number of residential customers to approximately 1,160,000 at December 31, 2005 from approximately 1,117,000 at December 31, 2004, principally as a result of the Light for All Program, and a 2.9% increase in average consumption by residential customers in 2005, and (2) a 3.2% increase in the average tariff paid by residential customers.
- an 11.9% increase in electricity sales to commercial customers as a result of (1) a 6.1% increase in the volume of electricity consumed by commercial customers to 1,014 GWh in 2005 from 956 GWh in 2004 due to a 4.8% increase in average consumption by commercial customers in 2005 and a 1.2% increase in the number of commercial customers in 2005, and (2) a 5.5% increase in the average tariff paid by commercial customers.
- a 17.2% increase in electricity sales to industrial customers as a result of (1) a 14.2% increase in the average tariff paid by industrial customers, and (2) a 2.6% increase in the volume of electricity consumed by industrial customers to 1,017 GWh in 2005 from 991 GWh in 2004, primarily due to a 2.5% increase in average consumption by industrial customers in 2005.

CELTINS. Gross operating revenue from electricity sales to final customers by our CELTINS operating unit increased in 2005 primarily as a result of:

- a 27.9% increase in electricity sales to residential customers as a result of (1) a 19.8% increase in the average tariff paid by residential customers, and (2) a 6.8% increase in the volume of electricity consumed by residential customers to 344 GWh in 2005 from 322 GWh in 2004 due to a 4.8% increase in the number of residential customers to approximately 257,000 at December 31, 2005 from approximately 245,000 at December 31, 2004, principally as a result of the Light for All Program, and a 2.0% increase in average consumption by residential customers in 2005.
- a 27.0% increase in electricity sales to commercial customers as a result of (1) a 17.3% increase in the average tariff paid by commercial customers, and (2) an 8.2% increase in the volume of electricity consumed by commercial customers to 197 GWh in 2005 from 182 GWh in 2004, primarily due to a 7.3% increase in average consumption by commercial customers in 2005.

REDE SUL/SUDESTE. Gross operating revenue from electricity sales to final customers by our REDE SUL/SUDESTE operating unit increased in 2005 primarily as a result of:

- a 14.4% increase in electricity sales to residential customers as a result of (1) a 7.4% increase in the average tariff paid by residential customers, and (2) a 6.5% increase in the volume of electricity consumed by residential customers to 689 GWh in 2005 from 647 GWh in 2004 due to a 3.6% increase in average consumption by residential customers in 2005 and a 2.8% increase in the number of residential customers to approximately 360,000 at December 31, 2005 from approximately 350,000 at December 31, 2004.
- a 13.8% increase in electricity sales to commercial customers as a result of (1) a 6.9% increase in the average tariff paid by commercial customers, and (2) a 6.4% increase in the volume of electricity consumed by commercial customers to 348 GWh in 2005 from 327 GWh in 2004 due to a 4.1% increase in average consumption by commercial customers and a 2.2% increase in the number of commercial customers in 2005.

The effects of these increases were partially offset by a 4.6% decline in electricity sales to industrial customers as a result of a 20.5% decline in the volume of electricity consumed by industrial customers to 560 GWh in 2005 from 705 GWh in 2004 due to a 25.3% decline in average consumption by industrial customers, the effects of which were partially offset by a 6.5% increase in the number of industrial customers in 2005. The effects of the decrease in the volume of electricity consumed by industrial customers were partially offset by a 23.3% increase in the average tariff paid by industrial customers in 2005.

Electricity Supplied for Resale

Our gross operating revenue from the supply of electricity to agents for resale increased by 12.0% to R\$91.5 million in 2005 from R\$81.7 million in 2004, primarily as a result of a 33.2% increase in the volume of electricity supplied to agents for resale to 993 GWh in 2005 from 745 GWh in 2004, the effects of which were partially offset by a 16.1%

decrease in the average price that we received for electricity supplied to agents for resale to R\$92.1 per MWh in 2005 from R\$109.8 per MWh in 2004.

Other Revenue

Our other revenue increased by 11.3% to R\$53.0 million in 2005 from R\$47.6 million in 2004. This increase was primarily related to an increase of R\$5.4 million in our rental income for our line poles as a result of the expansion of telephone and cable television services and the expansion of our distribution network.

Deductions from Operating Revenue and Net Operating Revenue

Deductions from operating revenue increased by 20.6% to R\$1,423.3 million in 2005 from R\$1,180.0 million in 2004. In 2005, deductions from operating revenue represented 33.7% of our gross operating revenue, compared to 32.4% in 2004. This increase as a percentage of revenue was primarily due to an increase in PIS/COFINS taxes from 3.65% to 9.25% in 2004, some of which ANEEL allowed us to defer and amortize over a 12-month period ending July 2006.

Our net operating revenue increased by 13.9% to R\$2,796.5 million in 2005 from R\$2,454.5 million in 2004.

Cost of Electrical Energy Services

The cost of electrical energy services increased by 18.4% to R\$1,008.3 million in 2005 from R\$851.7 million in 2004. As a percentage of net operating revenue, our cost of electrical energy services increased to 36.1% in 2005 from 34.7% in 2004.

Cost of Electricity Purchased for Resale

Our cost of purchasing electricity for resale increased by 22.4% to R\$812.6 million in 2005 from R\$664.0 million in 2004, primarily due to:

- a 9.1% increase in average tariffs paid for electricity to R\$68.6 per MWh in 2005 from R\$62.9 per MWh in 2004, as a result of price adjustments made in accordance with our contracts; and
- a 13.1% increase in the volume of electricity purchased to 11,731 GWh in 2005 from 10,375 GWh in 2004.

In addition to our purchases of electricity from third parties, our generation operations supplied our distribution companies with 1,773 GWh in 2005 and 1,754 GWh in 2004 generated by the Lajeado hydroelectric plant and 527 GWh in 2005 and 529 GWh in 2004 generated by the Guaporé hydroelectric plant.

Electricity Transmission Costs

Electricity transmission costs increased by 4.3% to R\$195.8 million in 2005 from R\$187.6 million in 2004, primarily due to the 13.1% increase in the volume of electricity purchased in 2005. The effects of this increase were partially offset by lower transmission tariffs as a result of the 25.0% reduction in the amount of electricity purchased under our initial contracts, under which we paid relatively higher transmission charges.

Operating Costs

Operating costs increased by 7.4% to R\$614.0 million in 2005 from R\$571.5 million in 2004. As a percentage of net operating revenue, however, our operating costs decreased to 22.0% in 2005 from 23.3% in 2004. The increase in our operating costs was primarily due to:

- a 40.5% increase in depreciation and amortization to R\$221.5 million in 2005 from R\$157.6 million in 2004, as a result of the revaluation of our permanent assets during the second quarter of 2005 as required by CVM regulations; and
- a 26.8% increase in supplies for production of electricity to R\$250.2 million in 2005 from R\$197.4 million in 2004, primarily due to (1) the increased production of electricity by our thermoelectric plants in response to

higher demand for electricity in our isolated systems, and (2) the higher prices for the fuel used by our thermoelectric plants.

The effects of these increases were partially offset by:

- a 28.5% increase in other operating costs to R\$252.6 million in 2005 from R\$196.5 million in 2004, primarily due to the increase of our CCC subsidies as a result of the increased production of electricity by our thermoelectric plants and the higher prices for the fuel used by our thermoelectric plants; and
- a 7.7% decrease in personnel costs to R\$115.6 million in 2005 from R\$125.3 million in 2004, primarily as result of the centralization of engineering and administrative personnel in our headquarters and the implementation of new technologies to increase the efficiency of our operations.

Operating Expenses

Operating expenses increased by 4.8% to R\$586.2 million in 2005 from R\$559.3 million in 2004. As a percentage of net operating revenue, our operating expenses decreased to 21.0% in 2005 from 22.8% in 2004. Our operating expenses increased primarily as a result of a 64.4% increase in other operating expenses to R\$249.2 million in 2005 from R\$151.6 million as a result of (1) a R\$43.7 million increase in our contributions to the CCC account as a result of higher costs of fuels used by thermoelectric power plants in the isolated systems during 2006 and increased consumption of electricity in the regions supplied by isolated systems, (2) a R\$28.8 million increase in contributions to the PEE and contributions to research and development programs. The effects of these increases were partially offset by:

- a 39.3% decrease in selling expenses to R\$78.1 million in 2005 from R\$128.7 million in 2004, primarily as a result of the negative provision for doubtful account of R\$28.9 million in 2005 as a result of the reversal of our provision for doubtful accounts with respect to past due accounts receivable of state and municipal governments due to a change in our accounting policy in June 2005 under which we no longer establish provisions for past due accounts receivable owed to us state and municipal governments compared to a R\$26.0 million provision from doubtful accounts in 2004. The effect of this change was partially offset by a R\$14.6 million increase in third-party services, primarily as a result of (1) the increased volume of third-party services we use to serve the increased number of customers that use our services as a result of the implementation of the Light for All Program, (2) the centralization of engineering and administrative personnel in our headquarters and the implementation of new technologies to increase the efficiency of our operations, and (3) the restructuring of our operating activities.
- a 7.2% decrease in general and administrative expenses to R\$258.9 million in 2005 from R\$279.1 million in 2004, primarily as a result of (1) a R\$15.3 million decrease in third-party services due to the centralization of engineering and administrative personnel in our headquarters and the implementation of technologies to increase the efficiency of our operations, and (2) a R\$4.8 million decrease in personnel expenses, primarily as a result of the restructuring of our operating activities.

Service Income

As a result of the foregoing, our service income increased by 24.6% to R\$587.9 million in 2005 from R\$472.0 million in 2004. As a percentage of net operating revenue, service income increased to 21.0% in 2005 from 19.2% in 2004.

Financial Income (Expenses), Net

Our net financial expenses decreased by 4.3% to R\$498.2 million in 2005 from R\$520.6 million in 2004. This decrease was primarily due to:

- a R\$33.0 million decline in monetary variation and late payment penalties related to electricity purchases, primarily as a result of the transfer by CELPA of the Curuá-Una hydroelectric power plant to Eletronorte in November 2005 in exchange for a reduction in the aggregate amount of R\$75.0 million of electricity supply invoices that have remained outstanding to Eletronorte since the Rationing Program;
- a R\$15.4 million increase in income from marketable securities, primarily as a result of an increase in the balances of these investments;

- a R\$61.0 million decrease in other financial expenses, primarily as a result of the offsetting of inter-company loans within our group of companies, which decreased the amount of taxes on financial transactions; and
- a R\$6.5 million increase in interest income from past due accounts receivable in respect of electricity sales to our final customers.

The positive effects of these changes were partially offset by a R\$57.2 million increase in interest and penalties, primarily as a result of our making provisions with respect to certain outstanding tax obligations that we were contesting and which we settled in 2006 under REFIS and PAES.

Non-Operating Income (Expenses), Net

Our net non-operating income decreased by 73.8% to R\$16.7 million in 2005 from R\$63.8 million in 2004, primarily as a result of our sale of the Rosal and Itamarati hydroelectric plants in 2004.

Income and Social Contribution Taxes

Our income and social contribution taxes were a credit of R\$69.4 million in 2005 compared to an expense of R\$48.0 million in 2004 due to the recognition in 2005 of tax credits of CEMAT arising from losses incurred by CEMAT in prior years.

Extraordinary Item

On December 21, 2004, CELPA entered into an agreement with the Urban Industrial Workers' Union of the state of Pará (*Sindicato dos Trabalhadores nas Indústrias Urbanas do Estado do Pará*), or STIU-PA, with respect to a lawsuit filed by the union against CELPA seeking a 26.1% increase in certain salaries that had been frozen in 1987 due to the adverse tax impact of an economic plan, known as the Bresser Plan, introduced by the Brazilian government in 1987 to control inflation. Under this agreement, CELPA agreed to pay the STIU – PA (on behalf of certain of its employees) an aggregate amount of R\$370.0 million, payable in eight unequal, successive annual installments ending in January 2012. CELPA also agreed to adjust any unpaid installments for inflation based on a Brazilian consumer price index (*Índice Nacional de Preços ao Consumidor*), or INPC. We recorded our obligations under this agreement on our balance sheet under labor indemnity—Bresser Plan and recorded the impact of this non-recurring item, net of taxes, as an extraordinary expense of R\$244.2 million in 2004.

Minority Interest

Minority interest was an expense of R\$201.0 million in 2005, compared to a gain of R\$87.5 million in 2004, as a result of our subsidiaries generating net income in 2005 as opposed to net losses in 2004.

Net Loss

As a result of the foregoing, our net loss decreased by 88.7% to R\$22.6 million in 2005 from R\$199.4 million in 2004. As a percentage of net operating revenue, net loss decreased to (0.8)% in 2005 from (8.1)% in 2004.

Liquidity and Capital Resources

Our liquidity and capital resources are and will continue to be influenced by a variety of factors, including:

- our ability to generate cash flows from our operations and to pass on our operating costs to our customers;
- ICMS, PIS and COFINS tax rates, which are deducted from our gross operating revenue;
- the level of our outstanding indebtedness and the interest that we are obligated to pay on our indebtedness, which may affect our net financial expenses;
- variations in the exchange rate between the *real* and the U.S. dollar;
- prevailing domestic and international interest rates, which affect our debt service requirements; and

- our capital expenditure requirements, which consist primarily of investments in our operations, maintenance, equipment and plant facilities.

Our principal cash requirements consist of the following:

- working capital requirements;
- servicing our indebtedness;
- capital expenditures to improve and expand our electricity distribution and generation systems and the quality of our services; and
- payment of dividends or interest on shareholders' equity, an alternative form of distribution to our shareholders allowed under Brazilian Corporation Law.

During 2006, cash flow generated by operations was used primarily for investing activities, for working capital requirements and to service our outstanding debt obligations. At December 31, 2006, our consolidated cash and cash equivalents and other investments amounted to R\$500.5 million. At December 31, 2006, we had negative working capital of R\$105.0 million. We expect to use the proceeds of this offering to repay short-term indebtedness and thereby significantly reduce the amount of our negative working capital.

Projected Sources and Uses of Cash

We anticipate that we will be required to spend approximately R\$2,341.1 million to meet our short-term contractual obligations and commitments and budgeted capital expenditures in 2007. We expect that we will meet these cash requirements through a combination of cash generated from operating activities and cash generated by financing activities, including this offering and other new debt financings and the refinancing of our existing short-term indebtedness as it becomes due.

We anticipate that we will be required to spend approximately R\$3,819.2 million to meet our long-term contractual obligations and commitments and budgeted capital expenditures through 2008. We anticipate that we will meet these cash requirements through a combination of cash generated from operating activities and cash generated by financing activities, including new debt financings and the refinancing of our indebtedness as it becomes due.

Cash Flows

Cash Flow for Year Ended December 31, 2006 Compared to Cash Flow for Year Ended December 31, 2005

Cash Flows from Operating Activities

Net cash provided by operating activities declined by 95.7% in 2006 to R\$28.2 million from R\$658.0 million in 2005, primarily as a result of:

- the effects of a decrease in related party liabilities of R\$266.4 million in 2006 compared to the an increase in related party liabilities of R\$40.9 million in 2005, principally as a result of (1) our assumption of certain indebtedness of Denerge and Empresa de Eletricidade Vale Paranapanema S.A., or EEVP, in consideration for their release of amounts owed to these companies, and (2) the repayment of a portion of our intercompany loans with the proceeds of our sale of 20 of our PCHs to Enel Latin América LLC and three of our PCHs to Tocantins Holdings, Ltda.;
- the effects of an increase in income and other tax liabilities to R\$31.7 million in 2006 compared to an increase in income and other tax liabilities R\$281.4 million in 2005, principally as a result of an increase in the cash payment of taxes in 2006 that was required in connection with our eligibility to participate in the Extraordinary Tax Debt Installment Program (*Parcelamento Excepcional*), or PAEX;
- the effects of an increase in our liabilities related to investment variation in subsidiary company of R\$183.9 million in 2006, principally as a result of the corporate restructuring of our interests in Rede Lajeado;

- the effects of a positive equity pick-up in subsidiaries in our income statement of R\$174.0 million in 2006, principally as a result of the corporate restructuring of our interests in Rede Lajeado, compared to a negative equity pick-up in subsidiaries in our income statement of R\$1.8 million in 2005; and
- an increase in the disposal gain on property plant and equipment of R\$133.4 million in 2006 from R\$30.7 million, principally as a result of the gain on our sale of 20 of our PCHs to Enel Latin América LLC and three of our PCHs to Tocantins Holdings, Ltda. in 2006 compared to the gain on the transfer by CELPA of the Curuá-Una hydroelectric power plant to Eletronorte in November 2005.

The negative effects of these factors were partially offset by:

- the effects of an increase in consumer contributions liabilities of R\$278.8 million in 2006, principally due to the increase in the number of our customers, primarily due to the implementation of the Light for All Program, and an increase in deposits made by some of our rural customers in advance of their connection to our distribution networks, compared to an increase in consumer contributions liabilities of R\$93.1 million in 2005;
- the effects of negative deferred tax credits in our income statement of R\$31.8 million in 2006 compared to positive deferred tax credits in our income statement of R\$143.2 million in 2005, principally as a result of the recognition of tax credits of CEMAT in 2005 arising from losses incurred by CEMAT in prior years;
- the effects of a decrease in other credits of R\$35.0 million in 2006 compared to an increase in other credits of R\$88.1 million in 2005, principally due to our receipt in 2006 of a portion of our CCC subsidy that was due in 2005; and
- our net income of R\$88.5 million in 2006 compared to our net loss of R\$22.6 million in 2005.

Cash Flows Used by Investing Activities

Net cash used by investing activities declined by 6.5% to R\$444.3 million in 2006 from R\$475.0 million in 2005, primarily as a result of the increase in our receipt of cash related to disposal of investment to R\$502.7 million in 2006, primarily reflecting our sale of 10 of our subsidiaries, as well as our interests in Quatira Energia S.A. and Vale Energética S.A., to Enel Latin América LLC and our sale of three PCHs to Tocantins Holdings, Ltda., compared to R\$90.8 million in 2005, primarily reflecting the transfer by CELPA of the Curuá-Una hydroelectric power plant to Eletronorte in November 2005. The effects of this increase were partially offset by the 52.2% increase in our use of cash to invest in fixed assets to R\$862.0 million in 2006 from R\$566.5 million in 2005, primarily related to the expansion of our distribution networks.

Cash Flows Provided by (Used in) Financing Activities

Net cash provided by financing activities was R\$655.8 million in 2006 compared to net cash used in financing activities of R\$141.7 million in 2005. The R\$797.5 million change in net cash was principally due to (1) a R\$924.5 million increase in net cash provided by loans and financings to R\$1,672.5 million in 2006 from R\$748.0 million in 2005, and (2) our assumption of R\$504.5 million aggregate principal amount of debt in 2006 in connection with our corporate reorganization. See “History and Corporate Reorganization.” The effects of these factors were partially offset by a 65.9% increase in our payment of principal amount on outstanding loans to R\$1,186.2 million in 2006 from R\$714.8 million in 2005, principally as a result of our repayment of short-term debt in 2006 with the proceeds of our issuances and borrowing of long-term debt.

Cash provided by loans and financings in 2006 primarily reflected:

- the issuance of 9.50% unit notes by CEMAT and CELPA in an aggregate principal amount of US\$100.0 million;
- borrowings under the IDB credit facilities in an aggregate principal amount of US\$179.5 million;
- proceeds of R\$110.0 million from a FDIC that we registered with the CVM in January 2006; and
- our incurrence of short-term debt under our working capital lines.

Cash provided by loans and financings in 2005 primarily reflected our incurrence of short-term debt under our working capital lines.

Cash Flow for Year Ended December 31, 2005 Compared to Cash Flow for Year Ended December 31, 2004

Cash Flows from Operating Activities

Net cash provided by operating activities declined by 9.8% in 2005 to R\$658.0 million from R\$729.7 million in 2004, primarily as a result of:

- the effects of the absence in 2005 of the R\$370.0 million charge to income related to the Bresser Plan taken in 2004;
- the effects of an increase in revenue recomposition, which represents recoverable taxes paid in connection with our capital expenditures, of R\$327.8 million in 2005, principally as a result of the increase of our capital expenditures in 2005 to expand our distribution networks, primarily in connection with the implementation of the Light for All Program, compared to an increase in revenue recomposition of R\$203.5 million in 2004;
- the effects of an increase in consumers, concessionaires and permit-grantee of R\$83.0 million in 2005 compared to a decrease in consumers, concessionaires and permit-grantee of R\$34.4 million in 2004 which resulted primarily from the reduction of tariff increases previously granted by ANEEL to mitigate the effects of the Rationing Program.

The negative effects of these factors were partially offset by:

- the effects of minority interest expense of R\$201.0 million in 2005 compared to a gain on minority interest of R\$87.5 million in 2004; and
- the 88.7% decline in our net loss to R\$22.6 million in 2005 from R\$199.4 million in 2004.

Cash Flows Used by Investing Activities

Net cash used by investing activities increased to R\$475.0 million in 2005 from R\$119.2 million in 2004, principally as a result of :

- a 73.0% increase in our use of cash to invest in fixed assets to R\$566.5 million in 2005 from R\$327.4 million in 2004, primarily related to the expansion of our distribution networks; and
- the decline in our receipt of cash related to disposals of investments to R\$90.8 million in 2005, primarily reflecting the transfer by CELPA of the Curuá-Una hydroelectric power plant to Eletronorte in November 2005, compared to R\$239.1 million in 2004, primarily reflecting our sale of our equity interests in Itamarati Norte S.A. – Agropecuária to Hobi Participações e Empreendimentos Ltda. and cash received of R\$134.0 million in connection with the sale of our interests in Rosal Energia S.A. to CEMIG.

Cash Flows Used in Financing Activities

Net cash used in financing activities declined to R\$141.7 million in 2005 from R\$458.3 million in 2004, principally as a result of the increase in cash provided by loans and financings to R\$748.0 million in 2005 from R\$445.8 million in 2004. Cash provided by loans and financings in 2005 and 2004 primarily reflected our incurrence of short-term debt under our working capital lines.

Capital Expenditures

Our principal capital expenditures in the past several years have been for the maintenance, upgrading and expansion of our distribution networks, implementation of safety and maintenance programs, new customer connections and investments in technology to continue to improve customer service and reduce losses. The following tables set forth our principal capital expenditures during the years presented.

	Year Ended December 31,		
	2006	2005	2004
	(in millions of reais)		
Capital Expenditures			
CELPA	R\$393.9	R\$185.4	R\$125.8
CEMAT	263.6	213.3	69.3
CELTINS.....	137.5	103.1	48.9
Other	67.0	64.6	83.4
Total	<u>R\$862.0</u>	<u>R\$566.4</u>	<u>R\$327.4</u>

We invested a total of R\$346.5 million, R\$325.4 million and R\$241.4 million in maintaining and expanding our distribution system in 2006, 2005 and 2004, respectively. In addition, in an effort to reduce our electricity losses and to connect new clients previously served by thermoelectric power plants in the isolated system, we (through CEMAT) invested R\$50.8 million in 2005 to connect the municipalities of Brasnorte, Juína and Juara, Mato Grosso to our transmission system.

In 2005, we also invested approximately R\$241.0 million in the Light for All Program, which was created by the Brazilian government in November 2003 to provide electricity services to all rural areas in Brazil by 2008. Thirty-five percent of this amount was funded by the RGR Fund financed by Eletrobrás, 40% was provided by the CDE in the form of a grant, 10% was provided by state government subsidies and 15% was provided by our own funding.

In 2006, we invested R\$862.0 million in capital expenditures, R\$346.5 million of which were used for capital expenditures in the ordinary course of our business, R\$514.2 million of which were invested in the Light for All Program (which is partially funded by the Brazilian government), and the remaining R\$1.3 million was invested in loss recovery and improvements in our equipment with part of the proceeds from the IDB credit facilities.

We currently plan capital expenditures of approximately R\$980.3 million in 2007, R\$269.4 million of which will be used for capital expenditures in the ordinary course of our business, R\$590.0 million of which we will invest in the Light for All Program (which is partially funded by the Brazilian government), and the remaining R\$120.9 million will be invested in loss recovery and improvements in our equipment (which will be funded by part of the proceeds from the IDB credit facilities).

We currently plan additional capital expenditures of approximately R\$830.2 million in 2008, R\$240.0 million of which will be used for capital expenditures in the ordinary course of our business, R\$377.2 million of which we will invest in the Light for All Program (which is partially funded by the Brazilian government), and the remaining R\$212.9 million will be invested in loss recovery and improvements in our equipment (which will be funded by part of the proceeds from the IDB credit facilities).

Our proposed capital expenditures projects in 2007 and 2008 are not final and may change.

The Light for All Program is an initiative of the Brazilian government in partnership with state governments and distribution companies. The objective of this program is to provide electricity by 2008 to more than 12 million people throughout Brazil who currently do not have access to electricity, with total investments estimated at R\$7.0 billion (85% of which are to be financed by the Brazilian government). Subject to ANEEL's discretion, we must wait until our next periodic tariff revision, which occurs every four or five years, to pass on to our customers the costs that we incur in connection with the Light for All Program and that are not reimbursed to us from such other sources. ANEEL Resolution 175/2005 provides that, in the event that additional costs arising from our implementation of the Light for All Program cause tariffs to increase by more than 8% between 2005 and 2008, we may request a revision of the targets set by this program. We cannot assure you, however, that ANEEL will timely reset the timetable for termination of this program, if at all, if our tariffs increase by more than 8% as a result of its implementation. We invested R\$514.2 million in 2006 and R\$251.4 million in 2005 to meet the objectives of the Light for All Program.

Indebtedness

Our total outstanding indebtedness, including accrued interest, was R\$2,782.7 million as of December 31, 2006. As of December 31, 2006, approximately 27.2%, or R\$756.6 million, of our total outstanding indebtedness was denominated in U.S. dollars, compared to approximately 13.5%, or R\$229.3 million, as of December 31, 2005.

Our financing strategy has been to extend the average maturity of our outstanding indebtedness, including by refinancing short-term debt with longer-term borrowings, in order to increase our liquidity levels and improve our strategic, financial and operational flexibility. We intend to use a portion of the proceeds from this offering to repay a portion of our short-term indebtedness. See “Use of Proceeds” and “Capitalization.”

Short-Term Indebtedness

We maintain short-term finance lines denominated in *reais* with a number of financial institutions in Brazil. As of December 31, 2006, the outstanding balance under our short-term working capital lines denominated in *reais* was R\$801.3 million. In addition to short-term financing lines, we have financing arrangements for the purchase of electricity and of raw materials used in the generation of electricity, which arrangements are accounted for on our balance sheet as accounts payable. As of December 31, 2006, 19.3% of our short-term indebtedness was secured by certain of our receivables, property and equipment, and 80.7% of our indebtedness was guaranteed by our controlling shareholders.

Long-Term Indebtedness

The following table sets forth selected information with respect to certain of our principal outstanding long-term debt instruments (including the current portion of such debt) as of December 31, 2006.

Instrument	Outstanding Principal Amount as of December 31, 2006 (in millions of <i>reais</i>)	Final Maturity
Debentures:		
First issue of debentures	39.9	July 2008
Convertible debentures	67.3	December 2007
Third issue of debentures	50.8	December 2007
IDB bank credit facilities	388.5	
BNDES loans:		
CELPA	53.9	December 2008
Acquisition financing	107.1	Various
Assumed debt	482.1	Various
Eletrobrás loans		
CEMAT	166.7	May 2012
CELPA	105.1	May 2012
Fixed rate notes		
9.50% notes units	221.7	February 2012
Securitization	111.3	January 2011
Government bonds	146.4	April 2024

The instruments governing a substantial portion of our indebtedness contain cross-default clauses, such that the occurrence of an event of default under one of these instruments could trigger an event of default under other indebtedness.

Rede has pledged substantially all of the common shares and preferred shares that it owns in QMRA, CELTINS, Nacional, Bragantina and Força e Luz do Oeste to secure indebtedness to BNDES. In addition, Rede has pledged all of the common shares that it owns in Tangará to secure indebtedness to Banco do Brasil and UNIBANCO, and QMRA has pledged all of the common shares and preferred shares that it owns in CELPA to secure indebtedness to BNDES.

The following discussion briefly describes certain of our significant financing transactions.

Debentures

Convertible Debentures. On December 4, 1997, we issued two series of convertible debentures. The first and second series of convertible debentures consist of 3,734,980 debentures and 3,734,931 debentures, respectively, each with a par value of R\$10.22. Both series of debentures are secured by pledges of CEMAT’s common and preferred shares owned by our company. The principal amount of the first series is payable in five annual installments ending on

December 4, 2007. The first series of these debentures bears interest at the TJLP rate plus 2.5% per annum, payable in five annual installments. The principal amount of the second series of debentures is payable in full at maturity on December 4, 2007. The second series of these debentures bears interest at the TJLP rate plus 5.5% per annum, payable in 60 monthly installments. BNDESPAR, as the holder of these debentures, has the option to convert the debentures into our preferred shares at any time. The conversion price of the first and second series of debentures will be determined based on the public offering price of our shares (if the option is exercised within 30 days of publication of a press release announcing the commencement of the public offering), the conversion price of other debentures issued by our company while the first and second series of convertible debentures are still outstanding or the strike price of share options granted by our company, plus accrued interest in each case.

First Issue of Debentures. On October 1, 1998, we issued a first issue of non-convertible debentures in a single series of 13,330 debentures (of which 13,253 were subscribed and 77 were cancelled), each with a par value of R\$10,000. These debentures are secured by accounts receivable of the companies in our REDE SUL/SUDESTE operating unit, CELTINS and CEMAT. The principal amount of these debentures, as amended, is payable in equal successive monthly payments ending on July 15, 2008, and these debentures bear interest at the TJLP rate plus 4.0% per annum, payable monthly in arrears beginning January 15, 2003. As BNDES is the sole holder of these debentures, we are also subject to the standard terms and conditions applicable to BNDES financings, including limitations on asset sales. We have the right to redeem these debentures at any time.

Third Issue of Debentures. On April 1, 2000, we issued a third issue of non-convertible debentures in a single series of 167,000 debentures, each with a par value of R\$1,000, which par value was reduced to R\$678.04 as of December 1, 2002. These debentures are guaranteed by Denerge and EEVP. The principal amount of these debentures, as amended, is payable in three equal annual installments ending on December 1, 2007, and these debentures bear interest at the IGP-M rate plus a spread of 12.5% per annum, payable annually in arrears through maturity. If we fail to make principal or interest payments in a timely manner, holders of the debentures may use the amount of the debentures to pay electricity invoices issued by Caiuá, CELPA or CEMAT. However, if the amount of the debentures held by a holder exceeds the amount of the outstanding electricity invoices owed by such holder, a holder that opts to pay these invoices with debentures must forfeit his claim to the unpaid portion of his debentures. We paid a one-time fee equal to 1.5% of the aggregate outstanding principal amount of the debentures for the right to offset our liabilities under the debentures with electricity service.

Investco Debentures. On November 1, 2001, Investco issued 25,000 non-convertible single-class debentures, each with a par value of R\$10,000. These debentures are guaranteed by EEVP and Electricidade de Portugal S.A. The principal amount of these debentures is payable in November 2011, and these debentures bear interest at a floating rate not to exceed 12.80% per annum, payable until November 1, 2011.

Inter-American Development Bank Credit Facilities

On December 14, 2005, the IDB approved a credit facility of up to US\$135.0 million for CELPA and a credit facility of up to US\$114.5 million for CEMAT. The credit facilities, as approved, would be structured in the form of an “A” loan from IDB of up to US\$75.0 million for each of CELPA and CEMAT, and a syndicated “B” loan from two participating international financial institutions of up to US\$60.0 million for CELPA and US\$39.5 million for CEMAT. CEMAT and CELPA have agreed to use the proceeds of these facilities to finance certain of their respective capital expenditures, including in respect of the Light for All Program and to purchase technology and equipment to reduce technical and commercial losses. We executed definitive loan agreements with IDB on July 5, 2006. After we satisfied the conditions precedent to disbursement of these loans, including the delivery of reports of independent engineers by CEMAT and CELPA to IDB and compliance by CEMAT and CELPA with IDB’s social and environmental management policies, IDB disbursed an aggregate amount of US\$179.5 million in loans under these credit facilities on July 25, 2006, of which US\$100.0 million was to CELPA and the remaining US\$79.5 million was to CEMAT. We hedged the principal amount of both facilities against exchange rate fluctuations at rates ranging from IGP-M plus 4.23% per annum to IGP-M plus 5.5% per annum.

Both the “A” loan and the “B” loan have a three-year grace period prior to the commencement of principal amortization. Following the expiration of this grace period, the “A” loan amortizes over a six-year period, and the “B” loan amortizes over a three-year period. The “A” loan bears interest at LIBOR plus a spread ranging from 3.725% to 4.25% per annum, payable quarterly in arrears, and the “B” loan bears interests at LIBOR plus a spread ranging from 3.35% to 3.875% per annum, payable quarterly in arrears. In addition to interest, CEMAT and CELPA have paid a front-end fee and a structuring and syndication fee, and are required to pay an annual administration fee.

The IDB loans are severally secured by certain accounts receivable of CEMAT and CELPA, as well as by termination payments under their respective concession agreements. Each of the IDB loans is guaranteed by our

company and requires that the controlling shareholders of CEMAT and CELPA (including Rede) execute share retention agreements to agree that a change of control will not occur as to these companies and that IDB's security interest in the termination payments under the concession agreements described above would remain valid and perfected. Each of CEMAT and CELPA are subject to covenants under these credit facilities, including maintaining financial ratios (such as liquidity coverage ratios, debt to total capital ratios, debt to EBITDA ratios, short-term debt to EBITDA ratios and interest expense coverage ratios), as well as restrictions on investments, liens, mergers and consolidations, asset sales and related party transactions, as well as relating to IDB's environmental, social, health and safety, and labor requirements.

In connection with the IDB credit facilities (1) Rede has agreed not to encumber, exchange, assign as payment, sell or transfer common shares of CEMAT that would result in Rede owning less than a majority of the outstanding common shares of CEMAT, and (2) Rede and QMRA have agreed not to encumber, exchange, assign as payment, sell or transfer common shares of CELPA or QMRA that would result in Rede owning, directly or indirectly through QMRA, less than a majority of the outstanding common shares of CELPA.

BNDES Loans

CELPA. On December 7, 1998, CELPA entered into a R\$110.0 million credit facility with BNDES to finance a portion of its capital expenditures in connection with the expansion of its transmission and distribution network. This loan bears interest at the TJLP rate plus 5.0% per annum, payable monthly in arrears through the maturity date on December 15, 2008. The principal amount of this loan is payable 84 monthly installments ending on December 15, 2008. This loan is secured by certain of CELPA's accounts receivable and is also unconditionally guaranteed by Rede.

Acquisition Financing. On December 1, 1997, EEVP, Bragantina, Nacional and Rede entered into a R\$105.0 million credit facility with BNDES to finance a portion of the acquisition of CEMAT's shares in connection with its privatization. This loan bears interest at the TJLP rate plus 4.0% per annum, payable monthly in arrears through the maturity date in December 2007. The principal amount of this loan is payable in 15 successive monthly installments ending in December 2007.

Assumption of Debt. As part of the restructuring of the operations of our distribution companies, in March 2006 we assumed obligations of Denerge and EEVP under a debt facility with BNDES and certain loans with Enermat Investimentos e Participações S.A., or Enermat, in the aggregate amount of R\$504.5 million.

The BNDES facility consisted of four tranches with an aggregate principal amount of R\$549.0 million. The Tranche A loan under this facility has been repaid. As of December 31, 2006, the aggregate principal amount outstanding under the Tranche B loan was R\$185.0 million. The Tranche B loan accrues interest at the TJLP rate plus 4% per annum, payable quarterly commencing on December 15, 2006. The principal amount of the Tranche B loan is payable in 40 successive quarterly installments ending in September 2016. As of December 31, 2006, the aggregate principal amount outstanding under the Tranche C loan was R\$16.8 million. The Tranche C loan accrues interest at the TJLP rate plus 5% per annum, payable quarterly commencing on December 15, 2006. The principal amount of the Tranche C loan is payable in 40 successive quarterly installments ending in September 2016. As of December 31, 2006, the aggregate principal amount outstanding under the Tranche D loan was R\$250.0 million. The Tranche D loan accrues interest at the TJLP rate plus 5% per annum, payable quarterly commencing on December 15, 2006. The principal amount of the Tranche D loan is payable in five successive quarterly installments ending in December 2008.

The Enermat loans bear interest at IGP-M plus 6% per annum, payable annually in arrears through the maturity date in July 2010. The principal amount of these loans is payable in ten successive annual installments ending in July 2010. At December 31, 2006, the outstanding amount of these loans was R\$29.0 million.

Eletrobrás Loans

CEMAT. On February 25, 2000, CEMAT entered into a R\$127.9 million credit facility with Eletrobrás to finance a portion of its capital expenditures in connection with the expansion of its transmission and distribution network under the Rural Lighting Program. This loan bears interest at 5.0% per annum payable monthly in arrears commencing in May 2002 through the maturity date in May 2012. CEMAT also pays (1) a annual administration fee equal to 1.0% of the total outstanding principal amount of the loan, payable in monthly installments, and (2) a commitment fee equal to 1% of the undisbursed amount of the facility, payable on each disbursement date and at maturity. The principal amount of this loan is payable in 120 equal successive monthly payments ending in May 2012. This loan is secured by certain of CEMAT's accounts receivable.

CELPA. On February 29, 2000, CELPA entered into a R\$88.5 million credit facility (which was decreased to R\$76.8 million in June 2002) with Eletrobrás to finance a portion of its capital expenditures in connection with the

expansion of its transmission and distribution network under the Rural Lighting Program. This loan bears interest at 5.0% per annum payable monthly in arrears commencing in May 2002 through the maturity date in May 2012. CELPA also pays Eletrobrás (1) an annual administration fee equal to 1.0% of the total outstanding principal amount of the loan, payable in monthly installments, and (2) a commitment fee equal to 1.0% of the undisbursed amount of the facility, payable on each disbursement date and at maturity. The principal amount of this loan is payable in 120 equal successive monthly payments ending in May 2012. This loan is secured by certain of CELPA's accounts receivable.

Fixed Rate Notes

On February 14, 2006, CEMAT and CELPA issued and sold US\$100.0 million aggregate principal amount of unsecured 9.50% Notes Units due 2012, consisting of US\$50.0 million in aggregate principal amount of unsecured 9.50% notes due 2012 issued by CEMAT and US\$50.0 million in aggregate principal amount of unsecured 9.50% notes due 2012 issued by CELPA. Interest on these notes units is payable semi-annually in arrears in February and August in each year, commencing on August 14, 2006. These notes units will amortize in three successive annual payments on February 14, 2010, February 14, 2011 and February 14, 2012. As of December 31, 2006, the outstanding balance under these notes was US\$103.7 million. We have entered into swap agreements to hedge against exchange rate variations with respect to the principal amount of the notes units.

CEMAT and CELPA may, at their option, redeem their respective notes in whole, which may only occur simultaneously, at any time prior to their maturity, at a redemption price equal to the greater of (1) 100% of the principal amount of the notes to be redeemed, and (2) the sum of the present values of the remaining scheduled payments of principal and interest and Additional Amounts (if any) on the notes to be redeemed discounted to the date of redemption on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months) at the applicable treasury rate *plus* 50 basis points, in each case plus accrued and unpaid interest on the principal amount being redeemed to the redemption date.

The terms of these notes units prohibit CEMAT and CELPA from issuing, directly or indirectly, any debt (subject to certain exceptions) unless the total debt to EBITDA ratio on the date of issuance is less than 3.5 to 1.0 and the pro forma interest coverage ratio on the date of issuance is greater than 2.25 to 1.0. CEMAT and CELPA were in compliance with these financial covenants as of December 31, 2006, and we believe that they will be able to continue to comply with these financial covenants for the foreseeable future. The terms of these notes units also contain other covenants that restrict, among other things, the ability of CEMAT, CELPA and most of their subsidiaries to:

- incur additional indebtedness;
- incur liens;
- issue guarantees;
- issue or sell capital stock of subsidiaries;
- pay dividends or make certain other restricted payments;
- consummate certain asset sales;
- enter into certain transactions with affiliates; or
- merge or consolidate with any other person or sell or otherwise dispose of all or substantially all of their assets.

Securitization

On January 6, 2006, Caiuá registered a FDIC with the CVM, under which Caiuá has agreed to sell to the fund from time to time, without recourse, certain electricity receivables from group "B" customers in Caiuá's distribution area. The fund may purchase these receivables using (1) the net proceeds that it obtains from the sale of interests, or senior quotas, in the fund to certain qualified investors in Brazil, and (2) past due receivables that Caiuá previously sold to the fund and, although not obligated to do so, agrees to repurchase. On January 24, 2006, the fund issued R\$116.1 million in aggregate amount of senior quotas (387 senior quotas, each with a unit value of R\$300,000, of which 292 senior quotas were subscribed in the aggregate amount of R\$87.6 million). On May 3, 2006, an additional 75 senior quotas were subscribed for an aggregate amount of R\$22.5 million. The senior quotas mature on January 24, 2011 and will amortize in 48

successive equal monthly installments commencing on January 24, 2007. The amortization payments will include amounts in respect of interest calculated based on the CDI rate plus a spread of 2.25% per annum.

The fund must meet specified coverage ratios and ensure that receivables constitute at least a specified percentage of the fund's net worth. Caiuá agreed to purchase subordinated quotas from the fund to the extent necessary to enable the fund to meet specified coverage ratios, whether measured on periodic calculation dates or measured on a pro forma basis before the issuance of quotas to investors. As of December 31, 2006, Caiuá held R\$111.3 million of subordinated quotas.

Government Bonds

As formerly state-owned companies, CELPA and CEMAT obtained a portion of their funding requirements from the proceeds of bonds that had been issued by the Brazilian government from time to time. Accordingly, at the time that CELPA and CEMAT were privatized, they assumed a portion of Brazil's debt obligations under several outstanding bonds. Although the Brazilian government guarantees payment under these bonds, CELPA and CEMAT are required to pay principal and interest on a portion of these bonds. The bonds are denominated in various foreign currencies and accrue interest at rates varying between (1) LIBOR plus 4.3% and 11.0% per annum for CELPA, and (2) LIBOR plus 6.0% or 8.2% per annum for CEMAT. These bonds mature on April 15, 2024.

Agreements relating to the Lajeado Hydroelectric Plant

Investco has executed two financing agreements associated with the construction of the Lajeado hydroelectric plant involving BNDES funding. These agreements are:

- (1) a R\$180.0 million credit facility agreement executed on September 21, 2000 with BNDES. This agreement was amended on February 1, 2001. The companies comprising the Lajeado consortium are intervening parties in this agreement. This loan bears interest at the TJLP rate plus 4.0% per annum payable monthly in arrears through the maturity date in October 2012. The principal amount of this loan is payable in 120 successive equal monthly installments ending in October 2012; and
- (2) a R\$120.0 million credit facility agreement executed on September 21, 2000 and amended on February 1, 2001, with Banco Itaú, Bradesco, BBA Creditanstalt and Banco ABC under an arrangement known as a repass (*repassa*), in which BNDES makes a loan to the banks and the banks simultaneously make a loan in the same amount to the borrower. The companies comprising the Lajeado consortium are intervening parties in this agreement. This loan bears interest at the TJLP rate plus 4.0% per annum payable monthly in arrears through the maturity date in October 2012. The principal amount of this loan is payable in 120 successive equal monthly installments ending in October 2012.

The total outstanding balance of these loans as of December 31, 2006 was R\$260.4 million.

Investco is also subject to financial covenants, in connection with these BNDES agreements, to maintain a net equity to total assets ratio of at least 30%, and to maintain cash flow of at least R\$3.0 million. Under the terms of an investment agreement, Investco's shareholders, which include Rede Lajeado, have agreed to provide capital contributions to Investco, in proportion to their ownership of the voting capital stock of Investco, as necessary for the implementation of the Lajeado hydroelectric plant. If any shareholder of Investco does not effect its respective contribution, the remaining shareholders must do so in accordance with their respective percentages of the voting capital of Investco, in which case such shareholders' proportional interest in Investco will increase and, consequently, the portion of the energy from the Lajeado hydroelectric plant to which they are entitled will also increase. In addition, each of Investco's shareholders must provide guarantees for Investco's financings in proportion to its ownership of the voting capital stock of Investco. In the event of a default caused by Investco, its shareholders or controllers of its shareholders, creditors will be able to accelerate the BNDES financing agreements and execute the collateral described below. The acceleration of the R\$180.0 million BNDES credit facility agreement causes the cross acceleration of a R\$120.0 million repass arrangement.

The obligations under these agreements are secured by (i) a pledge of all the common shares of Investco owned by its shareholders (excluding the shares held by CEB Lajeado) and all of the shares issued by its shareholders that are owned by its controlling companies, under the terms of a share escrow agreement; (ii) a pledge of credits relating to payments deposited in Investco's account by its shareholders, under the terms and conditions of a leasing agreement and trustee agency agreement; (iii) a pledge of credits relating to revenue from trading of energy generated at the Lajeado hydroelectric plant, deposited in the accounts of Investco's shareholders pursuant to a trustee agency agreement; and (iv) a pledge of the rights arising from the concession, under the terms of a pledge agreement of such rights. Additionally,

the financing agreements are jointly and severally guaranteed by our company and Energias de Portugal, another shareholder of Investco. The collateral is shared between BNDES and the banks.

Investco has also executed the following financing agreements with the Bank of Amazônia S.A., or BASA:

- (1) a R\$50.0 million financing agreement, referred to as BASA I, entered into with BASA on September 30, 1999 (as amended on July 13, 2001 and May 13, 2003). This loan bears interest at 14.0% per annum payable monthly in arrears through the maturity date in October 2009. The principal amount of this loan is payable in 72 successive equal monthly installments ending in October 2009. To secure its obligations under BASA I, Investco pledged accounts receivable of our subsidiaries, as well as certain machinery and equipment.
- (2) a R\$44.3 million financing agreement, referred to as BASA II, entered into with BASA on December 28, 2000 (as amended on March 29, 2001). This loan bears interest at 14.0% per annum payable monthly in arrears through the maturity date in January 2011. The principal amount of this loan is payable in 84 successive equal monthly installments ending in January 2011. To secure its obligations under BASA II, Investco pledged accounts receivable and PCHs owed by our subsidiaries.

The total outstanding balance of these loans as of December 31, 2006 was R\$64.1 million.

Contractual Commitments

The following table summarizes our significant contractual obligations and commitments as of December 31, 2006 that have an impact on our liquidity:

	Payments Due by Period			Total
	From One Year to Three Years	Four to Six Years	More than Six Years	
	(in millions of reais)			
Loans and financings	R\$1,493.0	R\$744.2	R\$387.5	R\$2,624.7
Energy purchase settlements (1).....	139.3	—	—	139.3
Pension plan contributions (2).....	—	—	67.3	67.3
Tax settlement (3)	360.3	336.8	438.9	1,136.0
Labor indemnity (Bresser Plan) (4).....	162.2	174.9	—	337.1
Total	<u>R\$2,154.8</u>	<u>R\$1,255.9</u>	<u>R\$893.8</u>	<u>R\$4,304.4</u>

- (1) Consists of payments that some of our subsidiaries have agreed to make under settlement agreements with Eletronorte in respect of certain electricity purchases during the Rationing Program.
- (2) Consists of future contributions to pension plans that have been assessed by the Private Pension Department (*Secretaria da Previdência Complementar*). Our contributions to pension plans that we sponsor are assessed each year by the Private Pension Department in accordance with formulas that take into account the number of employees and their length of service. We are unable to estimate accurately the amount of its obligations relating to pension plans for periods that have not yet been assessed.
- (3) Consists of payments in an aggregate amount of R\$458.1 million that we have agreed to make in respect of certain past due tax liabilities under two special programs created by the Brazilian federal government in respect of certain federal taxes and one special program created by the government of the state of Pará in respect of ICMS taxes, each of which provided taxpayers with an amnesty period within which to voluntarily settle their outstanding tax obligations by entering into long-term payment plans, without incurring otherwise applicable penalties.
- (4) Reflects payments in an aggregate amount of R\$370.0 million that CELPA has agreed to make under a settlement agreement with a labor union in the state of Pará.

We are also subject to contingencies with respect to tax, labor and civil claims and have outstanding provisions for certain tax claims of R\$3.8 million and for certain labor and civil claims of R\$29.3 million, in each case as of December 31, 2006.

Off-Balance Sheet Arrangements

In connection with our ownership interest in the Lajeado hydroelectric plant, we have certain significant off-balance sheet obligations. We hold our interest in the Lajeado hydroelectric plant through Investco, in which we hold 45.4% of the voting stock and 43.8% of the total capital stock. Pursuant to the shareholders' agreement of Investco, our subsidiary Rede Lajeado and the other shareholders of Investco have agreed to contribute capital, in proportion to percentage of the voting capital they hold, sufficient to enable Investco to redeem preferred shares held by Eletrobrás. If any shareholder of Investco does not effect its respective contribution, the remaining shareholders must do so in accordance with their respective percentages of the voting capital of Investco, in which case such shareholders' proportional interest in Investco will increase and, consequently, the portion of the energy from the Lajeado hydroelectric plant to which they are entitled will also increase. The shares of Investco held by Rede Lajeado and the shares of Rede Lajeado, excluding the shares owned by CEB Lajeado, have been pledged to BNDES in connection with a financing contract for the benefit of Investco. In connection with that contract, the shareholders of Investco have also provided other credit support and have agreed to undertake the capital contributions necessary to enable the redemption by Investco of its preferred shares.

In addition, under CELPA's shareholders' agreement, Eletrobrás has a put right against our subsidiary, QMRA Participações S.A., or QMRA, that has a direct interest in CELPA, thereby requiring QMRA to purchase Eletrobrás's shares of CELPA upon the exercise of this put right.

Quantitative and Qualitative Disclosure About Market Risk

We are exposed to market risks arising from our normal business activities. These market risks, which are beyond our control, principally involve the possibility that changes in interest rates, exchange rates and inflation will adversely affect the value of our financial assets and liabilities or future cash flows and earnings. Market risk is the potential loss arising from adverse changes in market rates and prices.

Exchange Rate Risk

We have U.S. dollar exchange-rate exposure because a portion of our debt and certain other liabilities are denominated in U.S. dollars. As of December 31, 2006, approximately 28.8%, or R\$756.6 million (including accrued interest), of our indebtedness was U.S. dollar-denominated. In addition, we are subject to cash flow risk relating to our agreements with Itaipu, which are denominated in U.S. dollars. Although we pass through purchased electricity costs to our customers, the exchange rate variations we pay under these agreements are covered by the CVA account, which balance is paid only once a year in our annual tariff adjustments.

In order to mitigate the market risks to which we are exposed, we used and may use foreign-currency derivative instruments. As of December 31, 2006, we had one outstanding derivative instrument with a total notional value of US\$279.5 million, or 79.0% of our total indebtedness in foreign currency. The remaining 21.0% of our outstanding foreign-currency denominated debt was not protected by derivative instruments and was incurred upon our acquiring distribution companies in privatizations, as it reflects a portion of Brazil's sovereign debt, which matures in 2024.

The potential increase in our consolidated debt that would result from a hypothetical 10.0% devaluation of the *real* as of December 31, 2006 would have been R\$15.9 million.

Interest Rate Risk

As of December 31, 2006, we had approximately R\$1,521.5 million in outstanding *real*-denominated loans and financings (including short-term accrued interest) and R\$216.4 million in regulatory assets that bear interest at the SELIC rate. We also invest our excess liquidity mainly in floating rate instruments linked to the CDI rate. Our cash and cash equivalents as of December 31, 2006 totaled R\$500.5 million. We consider excess liquidity to be cash on hand less cash provisions for the payment of ICMS and other operational short-term payments.

A hypothetical increase of 10.0% in the rates applicable to our regulatory assets and liabilities would have resulted in an increase in net financial expenses of R\$91.5 million for the year ended December 31, 2006.

Inflation Index Risk

As of December 31, 2006, R\$29.2 million, or 1.6%, of our total indebtedness was linked to the IGP-M inflation index. In the event that the IGP-M increases, the additional cost would be partially mitigated by the fact that our tariffs also have their adjustments referenced to the IGP-M.

THE BRAZILIAN ELECTRIC POWER INDUSTRY

General

According to ONS, Brazil's total installed electricity generation capacity as of December 31, 2005 was 90.4 GW, of which 70.0 GW (77.4%) was hydroelectric and 14.2 GW (15.7%) was thermoelectric. In addition, Brazil imported 6.3 GW (6.9%) through the interconnected system. In 2003, the MME approved a ten-year expansion plan under which Brazil's installed electricity generation capacity is projected to increase by an annual average rate of 3.4% to 117.5 GW by 2012, of which 90.0 GW (76.6%) is projected to be hydroelectric (other than PCHs), 17.1 GW (14.5%) is projected to be thermoelectric, 8.2 GW (7.0%) is projected to be from PCHs and 2.2 GW (1.9%) is projected to be imported through the interconnected system.

As of December 31, 2006, Eletrobrás owned approximately 48.5% of the installed electricity generation capacity in Brazil. Through its subsidiaries, Eletrobrás also owns more than 60% of the installed transmission capacity above 230 kV. In addition, some Brazilian states control entities involved in the generation, transmission and distribution of electricity. They include, among others, Companhia Energética de São Paulo—CESP, or CESP, Companhia Paranaense de Energia, or COPEL and Companhia Energética de Minas Gerais—CEMIG, or CEMIG. Under the New Electricity Law, Eletrobrás and its subsidiaries were excluded from the National Privatization Program (*Plano Nacional de Privatização*), which the Brazilian government created in 1990 to promote the privatization of state-owned companies.

In 2006, total electricity consumption in Brazil reached 347,341 GWh, a 3.8% increase over 2005 and representing growth comparable to that of Brazil's GDP for 2006, which was 2.9%. For the year ended December 31, 2006, private companies owned 51.5% of the installed electricity generation capacity in Brazil.

Principal Regulatory Authorities

Ministry of Mines and Energy (MME)

The Ministry of Mines and Energy is the Brazilian government's primary regulator of the power industry, acting as the granting authority on behalf of the Brazilian government and empowered with policymaking, regulatory and supervisory capacity. Following the adoption of the New Electricity Law, the Brazilian government, acting primarily through MME, undertook certain duties that were previously under the responsibility of ANEEL, including the drafting of the guidelines governing the granting of concessions and the issuance of directives governing the bidding process for concessions relating to public services and public assets.

National Electric Energy Agency (ANEEL)

The Brazilian power industry is regulated by ANEEL, an independent federal regulatory agency. Since the enactment of the New Electricity Law, ANEEL's primary responsibility has been to regulate and supervise the power industry pursuant to the policies adopted by the MME and to respond to matters which are delegated to it by the Brazilian government and the MME. ANEEL's current responsibilities include, among others:

- administering concessions for electric energy generation, transmission and distribution, including the approval of electricity tariffs;
- enacting regulations for the electric energy industry;
- implementing and regulating the exploration of energy sources, including the use of hydroelectric power;
- promoting the public bidding process for new concessions;
- settling administrative disputes among electricity generation entities and electricity purchasers; and
- defining the criteria and methodology for the determination of the transmission tariffs.

National Electricity System Operator (ONS)

The ONS is a non-profit, private entity comprised of electric utilities engaged in the generation, transmission and distribution of electric energy, in addition to other private participants such as importers, exporters, and free customers.

The Brazilian government is entitled to appoint three of the five members of the ONS's board of executive officers. The primary role of the ONS is to coordinate and control the generation and transmission operations in the interconnected system, subject to ANEEL's regulation and supervision.

Electricity Trading Board (CCEE)

The CCEE is a non-profit organization subject to authorization, inspection and regulation by ANEEL, which has replaced the former Wholesale Energy Market (*Mercado Atacadista de Energia Elétrica*), or MAE. One of the principal purposes of the CCEE is to hold public auctions within the Regulated Contracting Market (*Contratos de Comercialização de Energia no Ambiente Regulado*), or CCEAR. In addition, the CCEE is responsible for, among other things: (1) registering all electricity purchase contracts in the CCEAR, all contracts resulting from market adjustments and all contracts executed within the free contracting market; and (2) the accounting for and clearing of short-term transactions. Members of the CCEE include generation, distribution and trading companies and free customers. Its board of directors is comprised of four members appointed by its members and one appointed by MME, who serves as the Chairman of the board of directors.

Concessions

The Brazilian constitution provides that the development, use and sale of electric energy may be undertaken directly by the Brazilian government or indirectly through the granting of concessions, permissions or authorizations. Historically, the Brazilian electric energy industry has been dominated by generation, transmission and distribution concessionaires controlled by the Federal or State governments.

Companies or consortia that wish to build or operate facilities for generation, transmission or distribution of electricity in Brazil must bid for a concession to do so in a public auction of the concession conducted by the MME. Companies or consortia that wish to participate in the generation or trading of electricity must apply for a concession, permission or authorization from MME or ANEEL. Concessions grant rights to generate, transmit or distribute electricity in the relevant concession area for a specified period, as opposed to permissions and authorizations, which may be revoked at any time at the discretion of MME, in consultation with ANEEL. This period is usually limited to 35 years for new generation concessions and 30 years for new transmission or distribution concessions. An existing concession may be renewed at the granting authority's discretion.

Principal Provisions of the Concession Law

Law No. 8,987, of February 13, 1995, as amended, or the Concession Law, establishes, among other things, the conditions that the concessionaire must comply with when providing electricity services, the rights of customers and the respective obligations of the concessionaire and the granting authority. The principal provisions of the Concession Law are summarized below:

- *Adequate service.* The concessionaire must render adequate service equally with respect to regularity, continuity, efficiency, safety and accessibility.
- *Use of land.* The concessionaire may use public land or request the granting authority to expropriate necessary private land for the benefit of the concessionaire. In such case, the concessionaire shall compensate the affected private landowners.
- *Strict liability.* The concessionaire is strictly liable for all direct and indirect damages resulting from the inadequate rendering of electricity distribution services, including unexpected supply interruptions and unstable voltage.
- *Changes in controlling interest.* The granting authority must approve any direct or indirect changes in the control of the concessionaire.
- *Intervention by the granting authority.* The granting authority may intervene in the concession, by means of an administrative proceeding, to ensure the adequate performance of services and full compliance with applicable contractual and regulatory provisions.
- *Termination of the concession.* The termination of the concession agreement may be accelerated by means of expropriation or forfeiture. Expropriation is the early termination of a concession for reasons related to the

public interest pursuant to a legislative declaration. Forfeiture, on the other hand, must be declared by ANEEL or the MME after it has issued a final administrative decision ruling that the concessionaire, among other things, (1) has failed to render adequate services or to comply with applicable law or regulations, or (2) no longer has the technical, financial or economic capacity to supply adequate services.

A concession agreement may also be terminated (1) through the mutual agreement of the parties, (2) upon the bankruptcy or dissolution of the concessionaire, or (3) following a final, non-appealable judicial decision rendered in a proceeding filed by the concessionaire.

When a concession agreement is terminated, all assets, rights and privileges that are materially related to the rendering of electricity services revert to the Brazilian government. Following termination, the concessionaire is entitled to indemnification for its investments in assets that have not been fully amortized or depreciated, after deduction of any amounts due by the concessionaire for fines and damages.

- *Expiration.* When the concession expires, all assets, rights and privileges that are materially related to the rendering of electricity services revert to the Brazilian government. Following expiration, the concessionaire is entitled to indemnification for its investments in assets that have not been fully amortized or depreciated as of the expiration date.

Penalties Imposed by ANEEL

ANEEL's regulations govern the imposition of sanctions against concessionaires and classifies the appropriate penalties based on the nature and importance of the breach (including warnings, fines, temporary suspension of the right to participate in auctions for new concessions, permits or authorizations and forfeiture). For each breach, the fines imposed can equal as much as two percent of the revenue (net of ICMS and services tax) of the concessionaire in the 12-month period preceding any assessment notice. Some infractions that may result in fines relate to the concessionaire's failure to request ANEEL's approval for certain actions, including:

- execution of contracts between related parties;
- sale or assignment of assets related to services rendered as well as the imposition of any encumbrance (including any security, bond, guarantee, pledge and mortgage) on them or any other assets related to the concession or the revenues of the electricity services; and
- amendment of the concessionaire's by laws, the concessionaire's reorganization or changes in the concessionaire's control.

ANEEL may also restrict the terms and conditions of related party contracts and, in extreme circumstances, rescind such contracts.

Universal Access Requirements for Distributors

In 2002, the federal government began implementing a universal access program designed to make electricity available to customers who would not otherwise have access to electricity. Under this program, distributors bear the initial costs of building the infrastructure to provide these customers with electricity.

ANEEL established targets to achieve universal access by 2014. If the electricity distribution companies fail to comply with their established targets, ANEEL may reduce their tariffs until they comply. According to ANEEL regulations, the proceeds resulting from the use of public assets and penalties imposed on electricity distribution companies will be invested in the expansion of the electricity distribution services.

On November 11, 2003, the Brazilian government began implementing the Light for All Program. The Light for All Program is coordinated by the MME and is being implemented by Eletrobrás to make electricity available to low-income rural customers who would not otherwise have access to electricity, and is financed through funds from the CDE and from the RGR Fund.

New Electricity Law

On March 15, 2004, the Brazilian government issued the New Electricity Law in an effort to restructure the Brazilian power industry to provide incentives to private and public entities to build and maintain generation capacity and assure the supply of electricity in Brazil at low prices through competitive bidding processes. The New Electricity Law has been regulated by several decrees as of May 2004 and regulations issued by ANEEL and the MME. The New Electricity Law is currently being challenged as to its constitutionality before the Brazilian Supreme Court. The Brazilian Supreme Court has not rendered a final decision.

Structural Limitations in the Electric Energy Market

Concentration Limitations in the Electric Energy Market

In 2000, ANEEL established limits on the concentration of certain services and activities within the Brazilian electric power industry. Under these limits, no electric power company (including its controlling and controlled companies) may:

- own more than (1) 20.0% of Brazil's installed electricity capacity, (2) 25.0% of the aggregate installed electricity capacity of the South region, the Southeast region and the Midwestern region, or (3) 35.0% of the aggregate installed electricity capacity of the North region and the Northeast region, unless such percentage corresponds to the installed electricity capacity of a single electricity generation plant;
- own more than (1) 20.0% of Brazil's electricity distribution market, (2) 25.0% of the aggregate electricity distribution market in the South region, the Southeast region and the Midwestern region, or (3) 35.0% of the aggregate electricity distribution market in the North region and the Northeast region, unless such concentration results from an increase in the distribution of electricity exceeding the national or regional growth rates; or
- own more than (1) 20.0% of Brazil's trading market with end-users, (2) 20.0% of Brazil's trading market with non-end-users, or (3) 25.0% of Brazil's total trading market.

Segregation of Classes of Activity

The New Electricity Law imposed a prohibition against distributors' engaging directly in electricity generation and transmission operations. In addition, the New Electricity Law imposed restrictions on certain activities of electricity distribution companies to ensure they focus only on their core business to guarantee more efficient and reliable services to their customers. The primary purposes of this mandated restructuring are:

- to preserve the independence of each utility concession, thereby (1) avoiding contamination between the creation of costs and compensation bases, (2) enabling the measurement of the economic and financial balance of each utility concession, (3) assuring transparent management, and (4) allowing the market and Brazilian consumers to be fully informed of the results of each utility concession;
- to implement and foster competition in the generation and trading activities of the electricity sector; and
- to improve the regulation of the transmission and distribution businesses, in which a natural monopoly currently exists.

Under the New Electricity Law, concessionaires and companies authorized to generate or transmit electricity in the interconnected system are prohibited from associating with or controlling companies that distribute electricity in the interconnected system. Distributors in the interconnected system, as well as companies permitted or authorized to distribute electricity through the interconnected system, are not permitted to:

- develop operations related to electricity generation and transmission;
- sell electricity to free customers at unregulated rates;
- hold, directly or indirectly, any interest in another company, except to obtain and manage financial resources required for the rendering of electricity service and when stipulated in the applicable concession agreements; or

- develop activities that are unrelated to their respective concessions, except those activities permitted by law or provided for in relevant concession agreements.

These restrictions do not apply to: (1) the supply of electricity to isolated systems, such as the isolated systems within the concession areas of CEMAT and CELPA; (2) the service of the concessionaire's own market, if the demand is less than 500 GWh per year, such as the concession areas of our subsidiary Força e Luz do Oeste; or (3) procurements, applications or loans to the distribution companies themselves, or to a company in the same economic group, with the prior consent of ANEEL.

Compliance with these provisions required many private companies in the electricity sector, including our company, to restructure their corporate organizations. The New Electricity Law provided for a transition period until September 15, 2006 for companies to adjust to these new requirements and ANEEL was permitted to extend the transition period until March 15, 2008 for distribution companies that were unable to comply with the requirements prior to September 15, 2006 due to factors beyond their control. Our company took the steps necessary to comply with these requirements prior to September 15, 2006. See "History and Corporate Reorganization."

Electricity Distribution Tariffs

Electricity distribution services are provided to a market that is divided into captive customers, which acquire electricity provided by the distributor in the regulated market and pay for the use of the distributor's network, and free customers, which may choose to purchase electricity from another energy supplier and pay only for the use of the distributor's network. Potentially free customers are customers that meet the eligibility requirements to be free customers, but have not elected to become free customers.

Free Customers and Potentially Free Customers

Customers are potentially free customers if either of the following conditions is met:

- the customer was connected to the interconnected system prior to July 8, 1995 and has a contracted demand above 3 MW at a voltage level higher than or equal to 69 kV; or
- the customer was connected to the interconnected system after July 8, 1995 and has a contracted demand above 3 MW at any voltage level.

Additionally, customers with a contracted demand equal to or higher than 500 kW may purchase electricity from PCHs, solar, wind and biomass generators rather than their local distribution company.

A potentially free customer that has a contract with a distribution company for an unspecified duration is only able to terminate that contract and become a free customer by notifying the distributor at least 15 days before the day such distributor is required to inform the MME of its electricity requirements for the next auction. See "—Regulation of Energy Purchases—Regulated Contracting Market." Once customer has opted for to be a free customer, it may only return to the regulated market upon giving the distributor five years advance notice, or shorter notice at the distributor's discretion. The prior notice requirement, in addition to preventing the opportunistic behavior of potentially free customers, ensures the distribution company's ability to buy additional electricity in the regulated market without imposing extra costs on its captive customers.

Potentially free customers represent a small percentage of our total customer base. As of December 31, 2006, we had 16 potentially free customers. During the year ended December 31, 2006, approximately 3.4% of our electricity sales by volume and 1.4% of our gross sales revenue were made to potentially free customers.

Currently, high-voltage customers that buy electricity from distribution companies in the regulated market do so at subsidized prices. This subsidy, known as a "cross subsidy," began to be gradually phased out as of July 2003 and will be totally eliminated by 2007 through a process called "tariff realignment."

Tariffs Applicable to Captive Customers

ANEEL regulates the tariffs distribution companies are permitted to charge their captive customers. Separate tariffs are established for residential, industrial, commercial and rural customers and for public agencies, public lighting and public service customers. Since 2002, low-income customers have benefited from a special tariff established by the

Brazilian government through ANEEL. During 2002, the losses generated by the application of this special tariff were financed by Eletrobrás, with funds from the Global Fund for Reversion of the Electricity Sector Asset Ownership (*Reserva Global de Reversão*), or the RGR Fund. Decree No. 4,336 of August 15, 2002, provided that the distribution companies would be compensated by the Brazilian government for losses of revenue resulting from the special tariff, with funds originating from dividends paid by Eletrobrás and other state and federal companies, as well as the Fund for Energy Development (*Conta de Desenvolvimento Energético*).

The tariffs established by ANEEL are designed to compensate distributors for (1) costs that are beyond the control of the distributor, known as Parcel A costs; and (2) costs that are within the control of the distributor, known as Parcel B costs. Parcel A costs include:

- tariff charges, consisting of regulatory charges and transmission expenses; and
- costs of electricity purchased for resale (1) pursuant to initial contracts, (2) pursuant to bilateral contracts that are freely negotiated between the parties, (3) from Itaipu, and (4) at public auctions, which are discussed below under “—Regulation of Energy Purchases.”

Parcel B costs include (1) a component designed to compensate the distributor for the carrying cost of its assets, (2) depreciation costs, and (3) a component designed to compensate the distributor for its operating and maintenance costs.

Distribution tariffs are adjusted by ANEEL (1) on an annual basis to pass through increases or decreases in Parcel A costs and to reflect the effects of inflation on Parcel B costs, (2) on a periodic basis, generally every three to five years as stated in the distributor’s concession agreement, to recalibrate Parcel B costs, and (3) on an extraordinary basis, analyzed on a case-by-case basis, to ensure the distribution companies’ economic and financial balance and to compensate them for unpredictable costs, including taxes, which significantly impact their cost structure.

Regulatory Charges

The regulatory charges component of a distribution company’s Parcel A costs includes payments of the following charges.

Fuel Consumption Account (CCC). Distribution companies, as well as generation companies that sell directly to final customers, must contribute to the CCC, created by Law No. 7.990, of December 28, 1989, as amended. The account was created in order generate financial reserves to cover elevated fuel costs associated with the increased use of thermoelectric plants. Annual contributions to the fund are based on estimates of the cost of the fuel required by the thermoelectric plants in the following year. The CCC is administered by Eletrobrás.

In February 1998, the Brazilian government began to provide for the phasing out of the CCC. Subsidies from the CCC were gradually phased out over a three-year period beginning in 2003 for power thermoelectric plants built prior to February 1998 that operate in the interconnected system. Thermoelectric power plants constructed after February 1998 are not be entitled to subsidies from the CCC. In April 2002, the Brazilian government determined that subsidies from the CCC would continue to be paid to thermoelectric plants located in isolated systems for a period of 20 years to promote electricity generation in the regions served by the isolated systems. We receive CCC subsidies related to the operation of the thermoelectric power plants of CEMAT and CELTINS.

Energy Development Account (CDE). In 2002, the Brazilian government instituted the CDE, which is financed through annual payments made by distribution concessionaires for the use of public assets, penalties and fines imposed by ANEEL and, since 2003, through a fee added to the tariffs paid for the use of the transmission and distribution systems by system participants that offer electricity to final customers. The fees paid by those system participants are adjusted annually. The CDE was created to support: (1) the development of electricity production throughout Brazil; (2) the production of electricity through alternative sources; and (3) the universalization of electricity services throughout Brazil. The CDE will remain in effect for 25 years, and it is administered by Eletrobrás. We receive reimbursement payments from the CDE of a portion of our capital expenditures related to the Light for All Program.

Global Fund for Reversion of the Electricity Sector Asset Ownership (RGR Fund). Following the termination or expiration of a distribution concession, the concessionaire is entitled to indemnification for its investments in assets that have not been fully amortized or depreciated. The RGR Fund was created by Decree No. 41,019 of February 26, 1957, as amended, in order to fund such indemnification. Each electricity distributor and certain generators operating under public service regimes must make contributions to the RGR Fund at an annual rate equal to 2.5% of its fixed assets, with a limit of three percent of its total operating income. In recent years, the RGR Fund has been used primarily to finance

generation and distribution projects. The RGR Fund is scheduled to be phased out by 2010, and ANEEL will review tariffs so that customers receive some benefit from the termination of the RGR Fund. We receive reimbursement payments from the RGR Fund of a portion of our capital expenditures related to the Light for All Program.

Electricity Services Inspection Fee. The Electricity Services Inspection Fee (*Taxa de Fiscalização de Serviços de Energia*) was created by Law No. 9,427, of December 26, 1996, as amended, and is equal to 0.5% of a distribution concessionaire's annual economic benefit. The annual value of the fee is established by ANEEL and is designed to generate the necessary income to finance the related inspection activities. The fee is determined annually and is paid by concessionaires in equal monthly installments.

Incentive Program to Foster the Development of Alternative Sources of Electricity (PROINFA). In 2002, the Incentive Program to Foster the Development of Alternative Sources of Electricity (*Programa de Incentivo às Fontes Alternativas de Energia Elétrica*), or the PROINFA program, was established by the Brazilian government to create incentives for the development of alternative electricity sources for use in the interconnected system, including wind power projects, PCHs and biomass projects. Under PROINFA's terms, Eletrobrás purchases the electricity generated by such alternative sources for a period of 20 years and transfers it to free customers and electricity distribution companies, which are responsible for including the costs of the program in their tariffs for all final customers in their respective concession area, except for low-income customers. In its initial phase, PROINFA is limited to a total contracted capacity of 3,300 MW (1,100 MW for each of the three alternative electricity sources). Projects seeking to qualify for the PROINFA's benefits must be fully operational by December 30, 2008.

Research and Development. Companies holding concessions, permissions and authorizations for distribution, generation and transmission of electricity must invest a minimum of 1.0% of their net operating revenue each year in research and development. PCHs and wind, sun and biomass energy projects are not subject to this requirement.

Transmission Expenses

The transmission expenses component of a distribution company's Parcel A costs includes payments of connection charges, transmission charges for electricity transported over the basic network, transmission charges associated with electricity purchased from Itaipu and ONS fees.

Tariff for Use of the Transmission System (TUST). ANEEL regulates the tariffs for the use of, and access to, Brazil's transmission systems. In recent years, the Brazilian government has sought to improve the national transmission system, and as a result, some transmission companies have engaged in significant expansion programs, paid for by increases in transmission tariffs. The increase in transmission tariffs and fees paid by the electricity distribution concessionaires is transferred to their respective customers through annual tariff adjustments.

The Tariff for Use of the Transmission System (*Tarifa de Uso do Sistema de Transmissão*), or TUST, is paid by distribution companies, generators and free customers for the use of the basic network, and is revised annually according to (1) the inflation index, and (2) the annual revenue of the transmission companies (which incorporates the expansion costs of the network itself). Pursuant to criteria established by ANEEL, owners of the different parts of the transmission network have transferred the coordination of their facilities to the ONS in return for receiving payments from the users of the transmission system. Network users, including generation companies, distribution companies and free customers, have signed contracts with the ONS granting them the right to use the transmission network in return for the payment of regulated tariffs. Other parts of the network that are owned by transmission companies but not considered a part of the transmission network are made directly available to users who pay a specified fee to the relevant transmission company.

Itaipu's Transmission Tariff. The Itaipu power plant has an exclusive transmission network, operated in both direct and alternating current, which is not considered a part of the basic network or the intermediary connection system. CELTINS and CEMAT, as well as the distribution companies that are part of the interconnected system in the South, Southeast and Midwestern regions of Brazil, are required to purchase specific quotas of the electricity generated by Itaipu and to pay specific tariffs for the transmission of electricity generated by Itaipu in proportion to their respective quotas.

Asset Payment

The asset payment component of a distribution company's Parcel B costs is calculated by determining the regulatory compensation base of the distributor and multiplying it by the weighted average cost of capital of the distributor. The regulatory compensation base includes (1) the depreciated value of the distributor's fixed assets in service, (2) an allowance for inventory related to the maintenance of the distribution system, and (3) the value of the distributor's

deferred assets. Any special obligations attributed to the distributor are deducted from the sum of these elements in determining the regulatory compensation base.

Under applicable regulations, the depreciated value of the distributor's fixed assets in service is determined by taking a physical inventory of the fixed assets, applying a new replacement value as determined under applicable regulations to these assets, and discounting the value of these assets according to the number of years that they have been in service. The physical inventory of existing assets is only made during odd numbered periodic tariff revisions. Fixed assets acquired after the preceding physical inventory are added to the regulatory compensation base by applying a new replacement value to these assets. During periodic tariff adjustments in which a physical survey is not conducted, the previously recognized value of the fixed assets is indexed by the IGP-M and reduced by the depreciation of the assets over the intervening years.

Depreciation Costs

The depreciation cost component of a distribution company's Parcel B costs is calculated by multiplying the new replacement value of the distributor's fixed assets by the distributor's average depreciation rate, which is established by applicable regulations.

Operating and Maintenance Costs

The operating and maintenance cost component of a distribution company's Parcel B costs is calculated with reference to the operating and maintenance costs of a hypothetical benchmark company serving the concession area of the distributor. In determining the operating and maintenance costs of this benchmark company, distributors negotiate with ANEEL benchmark values for operating and maintenance costs, sales and management costs, management and administrative costs and rates and costs related to payment defaults by the distributor's customers.

Tariff Adjustments

Annual Tariff Adjustments

Distribution tariffs are adjusted annually by ANEEL, pursuant to a parametric formula provided for in each distribution company's concession agreement. Each distribution company's concession agreement establishes an annual tariff adjustment. The increased Parcel A costs are usually fully transferred to the tariffs. Part B costs are adjusted according to the IGP-M and reduced by a factor referred to as the "X factor," which is an index related to productivity gains designed to encourage electricity distribution companies to seek operational efficiency.

Periodic Tariff Adjustments

Distribution tariffs are adjusted on a periodic basis by ANEEL, generally every three to five years as stated in the distributor's concession agreement. Each of our distribution companies had periodic tariff adjustments in 2003 or 2004 and are scheduled to have periodic tariff adjustments between August 2007 and May 2008. As part of this adjustment, (1) all Parcel B costs of the distributor are recalculated; and (2) the X factor that will remain in effect for annual tariff adjustments prior to the following periodic tariff adjustment is calculated. The X factor for each distribution company is calculated based on three components:

- Xc, based on customer satisfaction and which is ascertained annually according to research conducted by ANEEL;
- Xa, based on the difference between the IPC-A and the IGP-M, multiplied by the total costs incurred for the distributor's personnel, and which is measured annually because salary increases are based on the IPC-A, and the increases of Parcel B costs are based on the IGP-M; and
- Xe, based on the concessionaire's productivity gains due to market growth, and which is measured at each periodic tariff adjustment.

ANEEL recently withdrew the customer satisfaction index from calculation of the X factor, and this index will not be used in our next periodic tariff revisions. In addition, ANEEL recently enacted new regulations under which distribution companies will be required to comply under penalty of law with minimum pre-established targets measured by a new quality of service indicator related to customer satisfaction.

The adjustment factor applied to regulated tariffs in a periodic tariff adjustment is determined by dividing (1) the sum of a distribution company's Parcel A costs during the period since the prior periodic tariff adjustment *plus* the distribution company's Parcel B costs during the period since the prior periodic tariff adjustment *less* the other revenue received by the distribution company since the prior periodic tariff adjustment by (2) the actual revenue received by the distribution company since the prior periodic tariff adjustment. Activities performed by distribution companies that are not associated with electricity distribution are included in the periodic tariff adjustment calculations as alternative sources of revenue for the distributor.

Extraordinary Tariff Adjustments

Distribution concessionaires are entitled to an extraordinary tariff revision, analyzed on a case-by-case basis, to ensure their economic and financial balance and compensate them for unpredictable costs, including taxes, which significantly impact their cost structure. Extraordinary tariff adjustments were granted (1) in June 1999 to compensate for increased costs of electricity purchased from Itaipu as a result of the devaluation of the *real* against the dollar, (2) in 2000 to compensate for the increase in COFINS from 2% to 3%, and (3) in December 2001 to compensate for losses caused by the Rationing Program.

Tariffs Applicable to Free Customers

Free customers and other concessionaires pay a Tariff for the Use of the Distribution System (*Tarifa de Uso do Sistema de Distribuição*), or TUSD, that is regulated by ANEEL for the use of the system of the distribution company to which they are connected. The TUSD consists of the following components:

- Service A (costs relating to the payment of TUST in the basic network; costs relating to TUST frontier; costs incurred in the basic network; TUSD paid to other concessionaires and electricity losses in the basic network);
- Service B (dimensioned to remunerate distributors' assets, quotas in an amount equal to depreciation and operating costs to be added back to the distributors' asset base, in each case, as set in periodic tariff revisions of the distributor);
- technical losses and commercial losses;
- CCC;
- CDE; and
- PROINFA.

The TUSD is revised annually according to changes in its components, which include the costs of network operation and maintenance, regulatory charges, compensation for investments and depreciation.

Regulation of Energy Purchases

Distribution companies are permitted to pass through to their captive customers through the distribution companies' tariffs the costs of electricity purchased for resale (1) pursuant to initial contracts, (2) pursuant to bilateral contracts that are freely negotiated between the parties, (3) from Itaipu, and (4) at public auctions, subject to the limitations described below under "—Limitations on the Transfer of Costs."

Under the New Electricity Law, electricity purchase and sale transactions are carried out in two different markets: (1) the regulated contracting market, which permits distribution companies to purchase through public auction all electricity necessary to meet their captive customer's estimated demand; and (2) the free contracting market, which has more flexible trading rules and permits the purchase and sale of electricity by non-regulated entities, such as generators, free customers and electricity trading companies.

Under the New Electricity Law, the public bidding procedure for the supply of electricity to the regulated contracting market does not apply to the electricity generated by:

- small, low-capacity plants connected to the system of the electricity purchaser (such as co-generation plants and PCHs), which we refer to as distributed generation;

- plants qualified under the first phase of the PROINFA program;
- Itaipu; or
- bilateral agreements entered into before enactment of the New Electricity Law.

Prior to the enactment of the New Electricity Law, electricity distribution companies were permitted to meet up to 30% of their electricity requirements with electricity acquired from affiliated companies. Since the sale of electricity to captive customers will now be made in the regulated contracting market, these related party transactions are no longer permitted, except in the context of agreements that were duly approved by ANEEL prior to the enactment of the New Electricity Law, or at electricity auctions where affiliated companies act as sellers and buyers.

To minimize the effects of losses resulting from potentially free customers electing to become free customers, distribution companies may reduce the amount of electricity contracted with generators, in proportion to the volume of electricity that they will no longer distribute to free customers.

Initial Contracts

In connection with the National Privatization Program and to ensure that the transition from a regulated to a deregulated market would be as smooth as possible, electricity generators and distributors were required to enter into initial contracts. The initial contracts contained non-negotiable price (based in *reais*) and quantity terms that were regulated by ANEEL. The price terms of the initial contracts were adjusted annually according to the IGP-M on dates coinciding with the tariff adjustments of the distribution companies so that any increase in costs under the initial contracts was passed on to customers through distribution tariff increases. The volume of electricity purchased by distribution companies, including our company, pursuant to initial contracts remained steady from 1998 through 2002, but in accordance with ANEEL regulations, began to decline by 25.0% annually beginning on December 31, 2002 and the initial contracts expired on December 31, 2005.

Bilateral Contracts

Prior to the enactment of the New Electricity Law, distribution companies entered into bilateral contracts with generation companies, including affiliates of the distribution companies. Under these bilateral contracts, prices were freely negotiated between the parties. The prices negotiated under bilateral contracts were influenced primarily by the regulatory limitations on the ability of distribution companies to transfer the costs of purchased electricity to customers through their tariffs. Following the enactment of the New Electricity Law, these bilateral contracts have remained in effect in accordance with their terms. However, the New Electricity Law provides that the terms, prices and volumes of bilateral contracts executed by distribution companies and approved by ANEEL prior to the enactment of the New Electricity Law cannot be amended.

Itaipu

Itaipu is the largest hydroelectric plant in operation in the world, with an installed capacity of 12,600 MW, located on the border between Brazil and Paraguay. The Brazilian government holds a 50% equity interest in Itaipu through Eletrobrás, and the remaining 50% equity interest is held by the government of Paraguay. CELTINS and CEMAT, as well as the distribution companies that are part of the interconnected system in the South, Southeast and Midwestern regions of Brazil, are required to purchase from Eletrobrás specific quotas of the electricity generated by Itaipu mandated by ANEEL.

The tariffs at which the electricity generated by Itaipu are sold are denominated in dollars and established according to a treaty between Brazil and Paraguay. Consequently, Itaipu's tariffs rise or fall in accordance with fluctuations in the exchange rate of the *real* against the dollar. Variations in the price of electricity generated by Itaipu are subject to recovery as part of Parcel A costs.

Regulated Contracting Market

Under the New Electricity Law, distribution companies are obligated to contract 100% of the estimated electricity demand of their concession areas for each of the subsequent five years. In order to achieve this goal, the electricity distribution companies must purchase electricity in the regulated contracting market from existing or new generation projects.

In the regulated contracting market, distribution companies purchase electricity for their concession areas through public auctions managed by ANEEL and operated through the CCEE. Electricity purchases in the regulated contracting market are effected through two types of contracts: (1) energy agreements (*Contratos de Quantidade de Energia*) to be executed with hydroelectric plants; and (2) capacity agreements (*Contratos de Disponibilidade de Energia*) to be executed with thermoelectric plants. Together, these contract comprise the CCEAR.

Under an energy agreement, the generator agrees to supply a certain volume of electricity and assumes the risk that such supply of electricity could be adversely affected by conditions that could reduce the electricity produced or allocated, such as hydrological conditions and low reservoir levels. In such cases, the generator is required to purchase electricity from another source to comply with its supply commitments. Under a capacity agreement, the generator agrees to make a specific amount of capacity available to the regulated contracting market. Under capacity agreements, there is no liquidation of differences to the generator because the net result of the accounting of the differences of all generators in such agreements is allocated to the pool, to be transferred to regulated customers. Thus, the generator's revenue is guaranteed and possible hydrological risks are imputed to the distribution companies. However, distributors pass the increased price of electricity due to supply shortages on to customers through tariff adjustments.

Electricity Auctions

The guidelines for the purchase and sale of electricity in the regulated contracting market, as set forth in the applicable regulations, provide for electricity distribution companies to fulfill their electricity supply obligations primarily through public auctions. All electricity generation, distribution and trading companies, independent power producers and free customers are required to notify ANEEL by August 1st of each year of their estimated electricity demand or estimated electricity generation, as the case may be, for each of the subsequent five years. In addition, distribution companies are required to specify the portion of the contracted amount they intend to use to supply potentially free customers.

On an annual basis, the MME establishes a schedule of auctions, the total amount of energy to be contracted in the regulated contracting market and the list of the generation projects that are allowed to participate in the auctions. Each distribution company is required to notify ANEEL of the amounts of electricity that it intends to contract in a particular auction within the 60 day period preceding that auction.

Invitations to bid at the auctions are prepared by ANEEL in compliance with the guidelines established by the MME, including the requirement that the highest bid received in an auction be used as a criteria to determine the winner of the auction. The MME determines the maximum electricity selling price in such auctions.

Each distribution company that participates in an auction, other than a market adjustment auction, will execute a purchase contract with each generation company that participates in that auction covering the proportion of the electricity sold by that generator equal to the proportion of all electricity sold in that auction that is purchased by that distribution company. Distribution companies that participates in market adjustment auctions will execute purchase contracts with the particular generation company that wins an allocation in the market adjustment auction. The price terms under the purchase contracts are adjusted annually to reflect changes in the IPC-A.

Distribution companies are required to provide financial guarantees of their performance of the purchase contracts, either (1) in the form of a certificate of deposit issued by a bank, or (2) in the form of a bank guarantee secured by a pledge of revenues of the distributor in amount equal to the average value of the last three invoices related to the purchase contract.

Existing Energy Auctions. Auctions for electricity generated by generation facilities existing prior to March 16, 2004 that had purchase contracts approved by ANEEL will be held:

- one year before the initial delivery date specified in the purchase contract, which are referred to as A-1 auctions; and
- approximately four months before the delivery date, which are referred to as market adjustment auctions.

The purchase contracts executed in connection with A-1 auctions have a term of between five and 15 years. The purchase contracts executed in connection with market adjustment auctions must be for terms of two years or less. The CCEE has held A-1 auctions for initial delivery dates from 2005 through 2009. The purchase contracts executed in connection with these auctions each have a term of seven years.

Distributors are permitted to reduce the amount of electricity that they are required to purchase under purchase contracts executed in connection with existing energy auctions in certain circumstances. In the event that a potentially free customer of the distributor exercises its option to become free customers, the distributor can reduce its purchase commitment by the amount that it had estimated that it would supply to that potentially free customer. In the event that actual demand for electricity experienced by a distributor two years after its initial declaration of demand is less than the demand estimated by that distributor, the distributor may reduce its commitment by up to 4% per year of the amount initially contracted. In the event that a distributor increases the amount of electricity that it purchases under agreements executed prior to the enactment of the New Electricity Law relating to the expansion of the PCHs, the distributor can reduce its purchase commitment by the amount that of its increased purchases.

New Energy Auctions. Auctions for electricity generated by generation facilities that become operational after March 16, 2004 or that were operation prior to that date, but did not have a purchase contract approved by ANEEL, will be held:

- five years before the initial delivery date specified in the purchase contract, which are referred to as A-5 auctions; and
- three years before the initial delivery date specified in the purchase contract, which are referred to as A-3 auctions.

The purchase contracts executed in connection with A-5 and A-3 auctions have terms of between 15 and 30 years. The CCEE has held A-5 and A-3 auctions for initial delivery dates from 2008 through 2010. The purchase contracts executed in connection with these auctions each have a 30-year term for hydroelectric projects and a 15-year term for thermoelectric projects.

Mandatory Adjustment Mechanism among Distributors (MCSD)

The New Electricity Law created a mandatory adjustment mechanism among distributors that requires distributors that contracted for electricity in the electricity auctions in excess of their actual demand to transfer such excess electricity to distributors that contracted insufficient amounts of electricity. The New Electricity Law requires distributors that have contracted insufficient amounts of electricity to accept excess electricity on the same terms as those under which the distributors with excess electricity acquired this electricity.

Limitations on the Transfer of Costs

The rules for calculating the transfer to customer's tariffs of costs for electricity purchases made under purchase contracts executed prior to March 16, 2004 were not altered by the New Electricity Law. The New Electricity Law established rules for calculating the transfer to customer's tariffs of costs for electricity purchases made under purchase contracts executed after March 16, 2004 as described below.

Applicable regulations establish the annual reference value for each distribution company, a mechanism which limits the transfer of electricity purchase costs to captive customers. The annual reference value corresponds to the weighted average of electricity prices at A-5 and A-3 auctions purchased by a distribution company.

The annual reference value creates an incentive for distribution companies to purchase their estimated electricity demands at the A-5 auctions, which are expected to have lower prices than the A-3 auctions, and is applied in the first three years of purchase contracts for new electricity generation projects. Beginning in the fourth year of the purchase contracts, the costs for electricity may be fully transferred to customers.

The applicable regulations establish the following limitations on a distribution company's ability to transfer costs to captive customers:

- no transfer of costs for electricity purchases that exceed 103% of actual demand;
- limited transfer of the costs for electricity purchases made in A-3 auctions if the acquired electricity volume exceeds 2% of the demand for electricity purchased in the A-5 auctions;

- limited transfer of the costs for electricity purchases made from new electricity generation projects if the volume contracted under the purchase contracts related to existing generation facilities is less than 96% of the electricity volume defined in the existing contract;
- from 2005 to 2008, electricity purchases from existing facilities in an A-1 auction will be limited to 1% of the distribution company's demand. If the electricity purchased in the A-1 auction exceeds the 1% limit, the transfer of the costs of the electricity exceeding the 1% limit is limited to 70% of the average amount of the costs of electricity purchased from existing generation facilities with supply scheduled for 2005 to 2008; and
- if a distribution company fails to fully contract its demand, the transfer of the costs of the electricity purchased in the short-term market is limited to the lesser of the difference in settlement price or the annual reference value.

Free Contracting Market

In the free contracting market, electricity is traded among generation concessionaires, independent electricity producers, self-producers, electricity trading companies, electricity importers and free customers. The free contracting market also includes energy contracted under bilateral contracts entered into on or prior to March 16, 2004 until the expiration dates of these bilateral contracts. New bilateral contracts may only be entered into in accordance with the guidelines set forth in the New Electricity Law. State-owned generators may sell electricity to free customers, but, unlike private generators, they must do so through a public procedure which assures transparency and equal access to all interested parties.

In the free market, purchases and sales of electricity are made through bilateral contracts that are freely negotiated and prices and conditions are freely agreed upon by the parties. In this environment, competition exists between generation concessionaires and permit-holders, electricity trading companies, electricity importers and free customers.

Electricity Trading

Electricity trading is governed by Law No. 9,648, of May 27, 1998, as amended, and in Decree No. 2.655, of July 2, 1998, as amended. Electricity trading is subject to a competitive regime in which several agents may participate, including the generators operating under either the public service or independent production classifications, the trading agents and/or electricity importers. Unlike distribution and transmission services prices, which are regulated, electricity trading prices are freely negotiated based on market conditions.

Regulation of Generation Companies

Under the New Electricity Law, new generation concessions will be granted to the generation company that bids the lowest tariff for the sale of electricity to the regulated contracting market.

Unlike electricity distribution concessionaires, generation concessionaires generally lack provisions in their concession agreements for fixed tariffs or mechanisms for the adjustment of their tariffs. Following the enactment of the New Electricity Law, generators can only sell their electricity to distributors through public auctions conducted by ANEEL and the CCEE. Companies classified as public service generators are exempted from this restriction and may sell electricity in the free contracting market. The limitations on the distribution companies' ability to transfer costs under purchase contracts executed after the enactment of the New Electricity Law limit the electricity prices charged by generators, since the prices that are higher than the annual reference value will not be competitive in an auction and will not be eligible for ANEEL approval.

Energy Reallocation Mechanism (MRE)

The MRE provides financial protection against hydrologic risks for hydroelectric generators according to rules designed to mitigate the shared hydrologic risks that affect these generators and assure the optimal use of the hydroelectric resources of the interconnected system. The MRE includes all hydroelectric power plants subject to the centralized dispatching of the ONS and PCHs that opt to participate in the mechanism

The purpose of the MRE is to guarantee that all the generators that participate in the MRE will be able to sell the amount of electricity that they have contracted to sell under long-term contracts as determined by ANEEL, or their assured electricity, irrespective of their actual electricity production, provided that the power plants participating in the

MRE, as a whole, have generated sufficient electricity. The MRE reallocates electricity, transferring surplus electricity from those generators whose generation was in excess of their assured electricity to those whose generation was less than their assured electricity. The generation dispatch is determined by the ONS, which takes into account nationwide electricity demand, the hydrological conditions of the interconnected system and transmission limitations.

Generators that provide electricity to the interconnected system in excess of their assured electricity are reimbursed for the generation costs of the reallocated electricity. Generators are reimbursed for their variable operational costs, other than fuel, and costs for the use of water. The total costs of the reallocated electricity from all generators that provided electricity to the MRE are combined and paid by the generators that receive electricity from the MRE.

Regulatory Charges

In addition to the RGR Fund and the Electricity Services Inspection Fee, generation companies must pay the following regulatory charges.

Financial Compensation for the Use of Hydrological Resources

With the exception of certain PCHs, all hydroelectric facilities in Brazil, including our Lajeado hydroelectric plant and the Guaporé hydroelectric plant, must pay fees to Brazilian states and municipalities for the use of hydrological resources, as Financial Compensation for the Use of Hydrological Resources (*Compensação Financeira pelo Uso de Recursos Hídricos*), a regulatory charge that was introduced in 1989. These fees are based on the volume of electricity generated by the generation company and are paid to the states and municipalities where the plant or its reservoir is located.

Public Use Fund

Pursuant to the institutional model in place before 2004, the Brazilian government imposed a fee on independent power producers that rely on hydrological resources, except for PCHs, similar to the RGR Fund. Independent power producers are required to make contributions to this Public Use Fund (*Fundo de Uso de Bem Público*) according to the rules of the corresponding public auction for concessions.

HISTORY AND CORPORATE REORGANIZATION

History

With more than 100 years of history, we are one of the largest integrated business groups in the Brazilian electricity sector in terms of electricity distributed, and are active in electricity distribution, generation and trading.

We began operations in 1903 with the organization of Bragantina in the Bragança region of Southeast Brazil to supply local public electric lighting for the first time in Brazil. In 1981, the shareholders of Bragantina and EEVP formed Denerge as a holding company for Bragantina and EEVP.

Following its formation, Denerge acquired direct and indirect interests in the following distribution companies:

- in 1984, Denerge acquired Nacional;
- in 1985, Denerge acquired Caiuá Serviços de Eletricidade S.A., or Caiuá Serviços;
- in 1989, in a partnership with the state of Tocantins, Denerge acquired control of CELTINS, the first electric distribution company privatized in Brazil;
- in 1995, Denerge acquired Força e Luz do Oeste;
- in 1997, Denerge acquired a controlling interest in CEMAT; and
- in 1998, Denerge acquired a controlling interest in CELPA

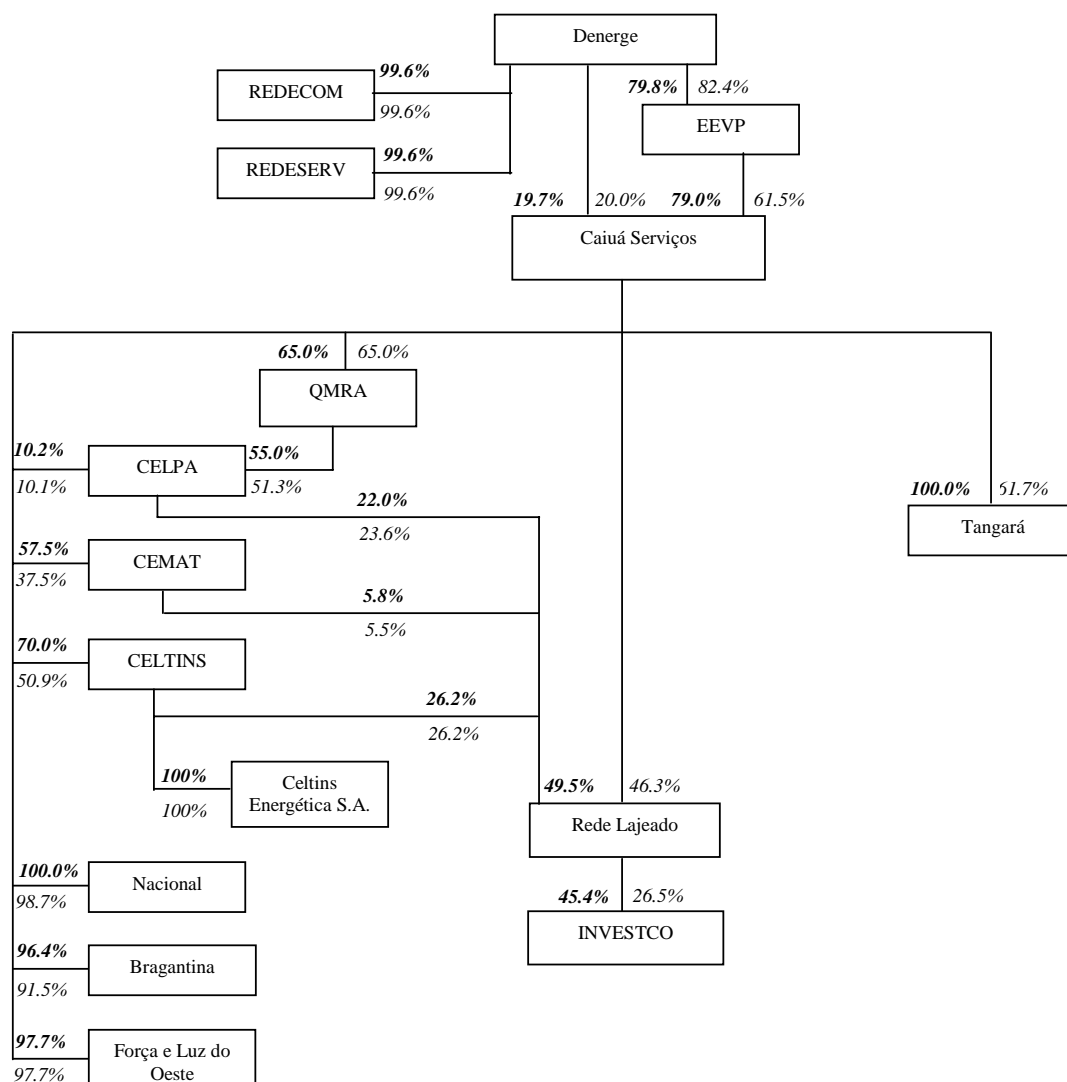
Denerge and its direct and indirect subsidiaries also participated in the development and operation of generation facilities. In 1995, we were awarded the concession to operate the Guaporé hydroelectric plant, with a total installed capacity of 120.0 MW. The Guaporé hydroelectric plant began commercial operations in 2003.

In 1997, our jointly controlled company, Investco, was awarded the concession to operate the Lajeado hydroelectric plant, with a total installed capacity of 902.5 MW. The Lajeado hydroelectric plant began commercial operations in 2001. The Lajeado hydroelectric plant was the first hydroelectric plant developed from the feasibility study stage through operation by the private sector.

Prior to the corporate reorganization described below, we owned 79 generation plants, 28 of which were hydroelectric plants and 51 of which were thermoelectric plants.

Beginning in 2004, Denerge began engaging in electricity trading activities through its subsidiary, REDECOM, and in third-party engineering services through its subsidiary, REDESERV.

As of December 31, 2003, our corporate structure was as follows (percentages in bold and italics represent percentage of voting share capital and percentages in italics represent percentage of total share capital):



Sales of Hydroelectric Plants

In August 2004, CEMAT transferred its equity interests in Itamarati Norte S.A. – Agropecuária, which owns the Juba I and II hydroelectric plants with a total installed power of 84 MW, to Hobi Participações e Empreendimentos Ltda, a company affiliated with the BRENNAND Group, for an aggregate purchase price of R\$230 million.

In November 2004, we transferred our interests in Rosal Energia S.A., which owns the Rosal hydroelectric plant with a total installed power of 55 MW, to Companhia Energética de Minas Gerais – CEMIG for an aggregate purchase price of R\$134 million.

In November 2005, CELPA transferred the Curuá-Una hydroelectric power plant to Eletronorte in exchange for a reduction in the aggregate amount of R\$75.0 million of electricity supply invoices that have remained outstanding to Eletronorte since the Rationing Program.

Our Corporate Reorganization

In 2005 and 2006, we underwent a corporate reorganization divided into three phases.

In the first phase of our corporate reorganization, we separated our generating, distribution, and transmission activities into separate operating companies, as required by the New Electricity Law in a process we refer to as our unbundling process. See “The Brazilian Electric Power Industry—Structural Limitations in the Electric Energy Market—Segregation of Classes of Activity.” Our unbundling process was approved by ANEEL on September 5, 2005.

Our unbundling process was completed on October 31, 2005. As part of our unbundling process:

- We transferred our distribution assets to our newly-formed subsidiary, Caiuá, and we transferred our generation assets to our newly-formed subsidiary, Quatiara Energia S.A. Following these transactions, we ceased our operating activities and became a holding company.
- CELPA transferred its 23.5% equity interest in Rede Lajeado Energia S.A., or Rede Lajeado, to our newly-formed subsidiary, Rede Power do Brasil S.A., or Rede Power.
- CELPA transferred the Curuá-Una hydroelectric plant to Eletronorte in September 2005 for an aggregate amount of R\$75.0 million, the book value of this investment as of September 30, 2005, in partial repayment of electricity supply invoices that had remained outstanding since the Rationing Program.
- CEMAT transferred its 5.8% equity interest in Rede Lajeado to Rede Power.
- CEMAT transferred its other hydroelectric generating assets to our subsidiary, VP Energia S.A., and five other newly formed subsidiaries, which we refer to collectively as the CEMAT Generators.
- CEMAT transferred its interests in the CEMAT Generators to Rede Power.
- CELTINS transferred our subsidiary, Celtins Energética S.A., which owned three hydroelectric power plants, and CELTINS’ 21.2% equity interest in Rede Lajeado to Rede Power’s newly-formed subsidiary, Tocantins Energia S.A.
- CELTINS transferred its other hydroelectric generating assets to three newly formed subsidiaries, which we refer to collectively as the CELTINS Generators.
- CELTINS transferred its interests in the CELTINS Generators to Tocantins Energia S.A.

In addition, EEVP, our controlling shareholder, transferred its distribution assets to its newly-formed subsidiary, EDEVP, and transferred its generation assets to its newly-formed subsidiary, Vale Energética.

In March 2006, we completed the second phase of our corporate reorganization. In the second phase:

- Rede assumed debt that EEVP owed BNDES, CNEE and certain of Rede’s subsidiaries in an aggregate amount of R\$160.6 million in exchange for the release by EEVP of debt and accounts payable of Rede and one of its subsidiaries to EEVP in the aggregate amount of R\$19.9 million. The excess of the balance of the debt assumed by Rede over the balance of the debt and accounts payable releases by EEVP is recorded as a long-term receivable of Rede.
- Rede assumed debt of Denerge to BNDES, Enermat and certain of Rede’s subsidiaries in an aggregate amount of R\$470.3 million in exchange for the release by Denerge of debt and accounts payable of Rede and certain of its subsidiaries to Denerge in the aggregate amount of R\$438.8 million. The excess of the balance of the debt assumed by Rede over the balance of the debt and accounts payable releases by EEVP is recorded as a long-term receivable of Rede.

On April 3, 2006, Rede sold 99.7% of the share capital of Rede Peixe Energia S.A. to Denerge for a purchase price of R\$10.0 million. Rede financed Denerge’s purchase of Rede Peixe Energia S.A. The terms of this financing require Denerge to make 60 monthly payments of R\$166,200 beginning in April 2009. The outstanding balance on this financing was R\$1.2 million at December 31, 2006 and bears interest at the rate of the CDI rate plus 2% per annum.

On April 18, 2006, we changed our legal name from Caiuá Serviços de Eletricidade S.A. to Rede Empresas de Energia Elétrica S.A.

In June 2006, we completed the third phase of our corporate reorganization. In the third phase:

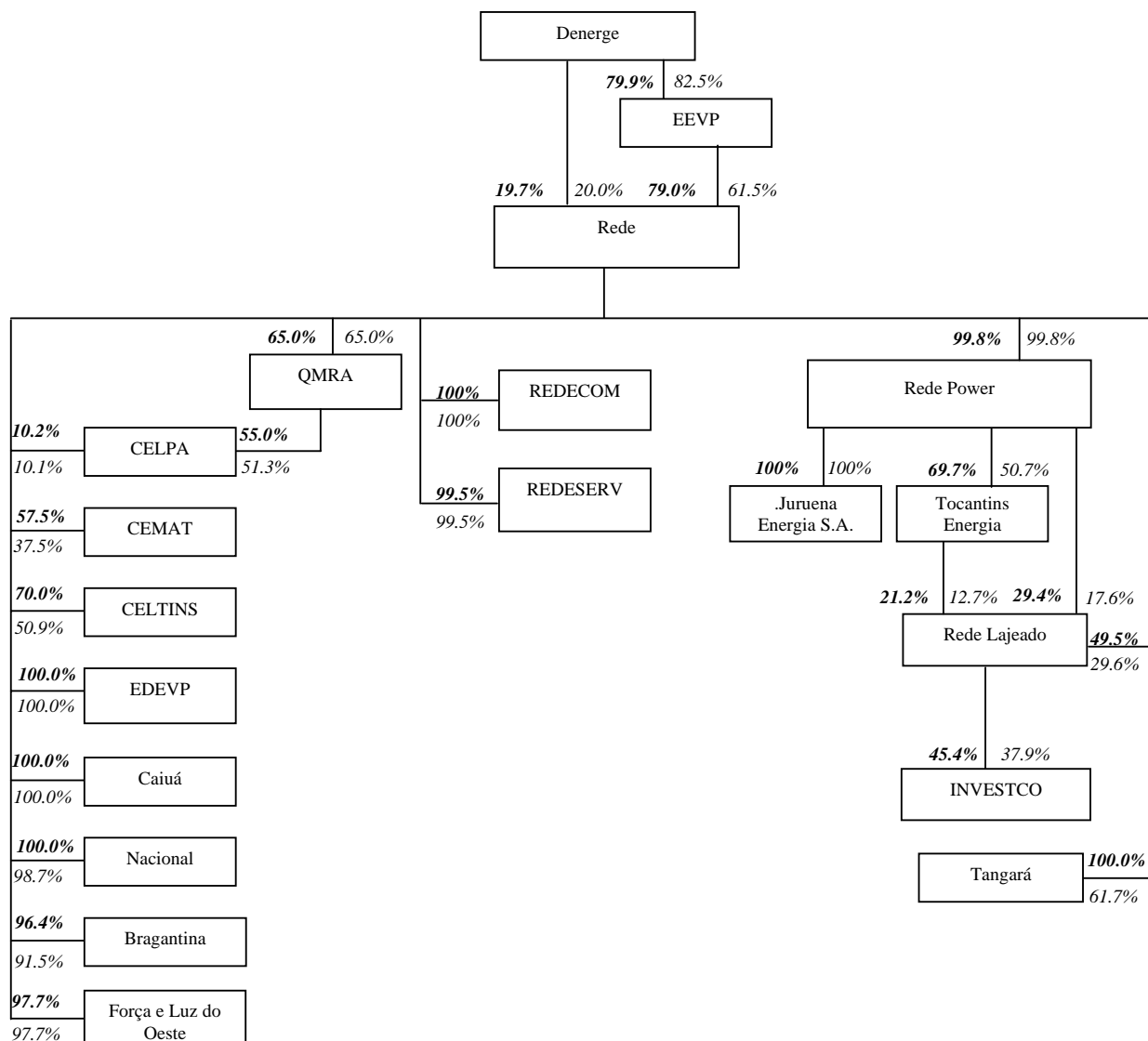
- Rede purchased 99.99% of the share capital of EDEVP from EEVP for a purchase price of R\$118.5 million. EEVP financed Rede's purchase of EDEVP. The terms of this financing require Rede to make three annual payments of R\$100,000 in June 2006, 2007 and 2008, followed by 84 monthly payments of R\$1.4 million beginning in July 2008. The outstanding balance on this financing of R\$127.7 million at December 31, 2006 bears interest at the rate of the CDI rate plus 2% per annum.
- Rede purchased (1) 99.99% of the share capital of REDECOM from Denerge for a purchase price of R\$46.1 million, and (2) 99.50% of the share capital of REDESERV from Denerge for a purchase price of R\$19.4 million. Denerge financed Rede's purchases of REDECOM and REDESERV. The terms of this financing require Rede to make three annual payments of R\$6.6 million in June 2006, 2007 and 2008, followed by 84 monthly payments of approximately R\$544,000 beginning in July 2008. The outstanding balance on this financing of R\$63.5 million at December 31, 2006 bears interest at the rate of the CDI rate plus 2% per annum.

PCH Sales

On September 21, 2006, we sold our subsidiary Celtins Energética S.A., which owned three PCHs with a combined installed capacity of 15.4 MW, to Tocantins Holdings, Ltda., a Brazilian company affiliated with the BRENNAND Group, for R\$33.9 million.

On June 8, 2006, we entered into an agreement to sell the CEMAT Generators and the CELTINS Generators, as well as our interests in Quatiara Energia S.A. and Vale Energética S.A., which collectively owned 22 additional PCHs with a combined total installed capacity of 96.3 MW, to Enel Latin América LLC for an aggregate amount of R\$463.6 million. This transaction closed on October 6, 2006, other than the sale of one of the CEMAT Generators, Juruena Energia S.A., the purchase of which is conditioned on a final decision in a civil action pending against Juruena Energia S.A. Following the sale of Juruena Energia S.A., we will no longer have any interests in PCHs.

The following chart presents our corporate structure as of December 31, 2006 giving effect to the transactions described above (percentages in bold and italics represent percentage of voting share capital and percentages in italics represent percentage of total share capital):



BUSINESS

Overview

Rede is a Brazilian electricity holding company that was incorporated on January 2, 1929 under the name Companhia Electrica Cauyuá S.A. (which later became Cauiá Serviços de Electricidade S.A. (“Cauiá”) on December 19, 1983 and finally Rede Empresas de Energia Elétrica S.A. on April 18, 2006). Through its subsidiaries, Rede engages in the distribution, generation and trading of electricity in Brazil. Our combined concession areas are geographically the largest in Brazil, covering approximately 30% of Brazil’s land mass and with a total combined population of approximately 12.5 million. We currently supply electricity to approximately 3.0 million customers in 506 municipalities in six Brazilian states. In 2006, we distributed 13,081 GWh of energy and recorded net income of R\$88.5 million and gross operating revenue of R\$4,775.1 million. As of December 31, 2006, our total assets were R\$9,002.8 million.

Our principal business activity is the distribution of electricity through CEMAT, CELPA, CELTINS, and five additional companies that comprise our REDE SUL/SUDESTE operating unit. Our generation activities complement our electricity distribution activities and are carried out through our equity ownership interests in the Lajeado hydroelectric plant and the Guaporé hydroelectric plant. In addition, our distribution companies own and operate 42 small thermoelectric plants. We also conduct electricity trading operations through our subsidiary REDECOM, and provide engineering design and construction services through our subsidiary REDESERV.

Strengths

We believe that our major strengths include the following:

- *High Growth Potential of our Concession Areas.* We distribute most of our electricity in regions of Brazil that have been growing at faster rates than the Brazilian national average, which we believe provides us with opportunities to increase our organic growth. Electricity consumption in the states of Pará, Mato Grosso and Tocantins, where we generate 79.9% of our gross operating revenue and 37.4% of our net income, increased by an average of 6.1%, 7.8% and 7.4%, respectively, from 2001 to 2006, which is significantly higher than the 4.2% increase in the Brazilian national annual average rate of electricity consumption during the same period. We also believe that government subsidized programs to promote increased access to electricity services to rural and undeveloped areas, such as the Light for All Program, which is expected to add approximately 356,000 new customers by its conclusion, and other similar federal and state programs, contribute to offer additional opportunities for significant growth. Since 1998, we have added approximately 1.0 million new customers to our distribution network, representing a 57.6% increase. We have a proven track record of identifying and implementing electricity service solutions for expansive areas with low population densities and, as a result, we believe we are capable of responding to these opportunities and maintaining our high rates of organic growth in new customers.
- *Operating Efficiency and Quality of Service.* We believe that we adhere to high operating standards in rendering electricity services. The principal operating performance indicators of our distribution companies have improved over the last few years. Our productivity, as measured by our number of customers per employee, increased to 566 customers per employee in 2006 from 537 customers per employee in 2005 and 465 customers per employee in 2004. We generally use two indices to measure our quality of service: (1) duration of interruption, or DEC, which reflects the average time of power outage per customer (taking into account only interruptions of at least one minute); and (2) frequency of interruption, or FEC, which reflects the average number of interruptions per customer (also taking into account only interruptions of at least one minute). Although these indicators have stabilized over the last two or three years, from 1998 through 2006, the DEC of CELPA, CEMAT and CELTINS improved by 59.9%, 60.8% and 40.3%, respectively, and the FEC of these companies improved by 43.5%, 73.8% and 66.5%, respectively. The levels of these indices are below the limits established by ANEEL for each of our distribution companies based on their unique characteristics, other than CELPA which exceeded its DEC target in 2005 and 2006 and exceeded its FEC target in 2006. We believe that our operating efficiency provides us with a positive image in relation to our customers and a good working relationship with ANEEL, each of which assist us in expanding our business.
- *Significant Experience in the Reorganization and Restructuring of Companies Facing Difficulties.* Since we commenced our expansion process in the 1980s, we have accumulated significant experience in the acquisition, reorganization and restructuring of companies facing operating and financial difficulties, particularly in the electricity distribution sector. We successfully applied this experience upon assuming control of CELPA,

CEMAT and CELTINS, in which we made significant operational and financial improvements by identifying and implementing appropriate solutions based on the characteristics of these expansive concession areas with a low population density. We believe that this experience is an important competitive advantage and will assist us in continuing to successfully expand our activities as we implement our acquisition strategy.

- *Strong Commitment to and Experience in the Brazilian Electricity Sector.* Our company commenced its activities in the electricity sector in 1903 with the creation of Bragantina. Since then, we have maintained our commitment to the Brazilian electricity sector. In 1989, we acquired CELTINS, the first government-owned electricity distribution company to be privatized in Brazil. Our senior management has, on average, more than 20 years of experience in the Brazilian electricity sector.
- *Experience in the Development and Operation of Generation Projects.* We have significant experience in developing and operating hydroelectric power plant projects. We have developed and operated more than 32 small- and medium-sized plants over the last 20 years. In addition, we developed, built and operate the Lajeado hydroelectric plant, with a total installed capacity of 902.5 MW. With the commencement of operations of the Lajeado hydroelectric plant in December 2001, we were the first private-sector group to develop a large integrated hydroelectric power plant project from the feasibility study stage through operation. We believe that this experience is an important competitive advantage and will assist us in developing and selling additional PCHs.

Strategy

The following are key elements of our strategy:

- *Expand Our Customer Base.* We intend to take advantage of the high-growth potential of our concession areas to attract new customers to our distribution network by investing in the expansion and modernization of our distribution systems. In addition, we believe that our governmental incentive programs, particularly the Rural Lighting Program (which preceded the Light for All Program) and the Light for All Program, provide an excellent opportunity to maximize the growth potential of our concession areas and expand our customer base.
- *Further Reduce Electricity Losses.* Since 1998, we have adopted a comprehensive plan aimed at reducing electricity losses, including repairing electricity meters to reduce reading flaws and implementing measures to reduce tampering and illegal connections. Our electricity losses decreased from 22.3% in 1998 to 18.5% in 2006, below the average loss rates for the Northern and Midwestern regions of Brazil where we operate. However, despite this overall reduction, our electricity losses remain higher than the national average. Due to difficulties in obtaining financing to fund our investments during the period following the Rationing Program, we decreased the level of our investments to reduce electricity losses, which resulted in increased losses beginning in 2004. However, we intend to increase our investments in the expansion and improvement of our program to reduce electricity losses further and thereby improve our cost structure.
- *Increase Technical and Operating Efficiency.* We recently implemented a corporate restructuring that we believe will allow us to further integrate our distribution activities over time and reduce our administrative and operational costs. We are also implementing new technologies to assist us in managing our operations and to improve our operating efficiencies, including a new system for communicating service orders that uses handheld devices equipped with global positioning technology, which we believe will significantly decrease the amount of time it takes us to service our distribution system. We believe that if we continue to make additional investments in processes that increase the operating and technical efficiency of our services, we will be able to further decrease our administrative costs and operating expenses while improving customer satisfaction and revenue collection.
- *Consolidate and Expand our Distribution Activities through Acquisitions with Growth Potential.* We intend to utilize our administrative and operational experience, which we obtained through the acquisition, restructuring and integration of our distribution companies, to consolidate and further expand our distribution activities through acquisitions that have a high growth potential and projected return on our investment. We plan to evaluate opportunities to acquire equity interests in distribution companies, including acquiring additional equity in our existing concessionaries.
- *Investment in Selective Small- and Medium-Sized Generation Projects.* We intend to invest in selective small- and medium-sized electricity generation projects, particularly through the construction of small- and medium-

sized hydroelectric power plants in light of our significant experience in evaluating, designing, constructing, operating and selling hydroelectric power plants.

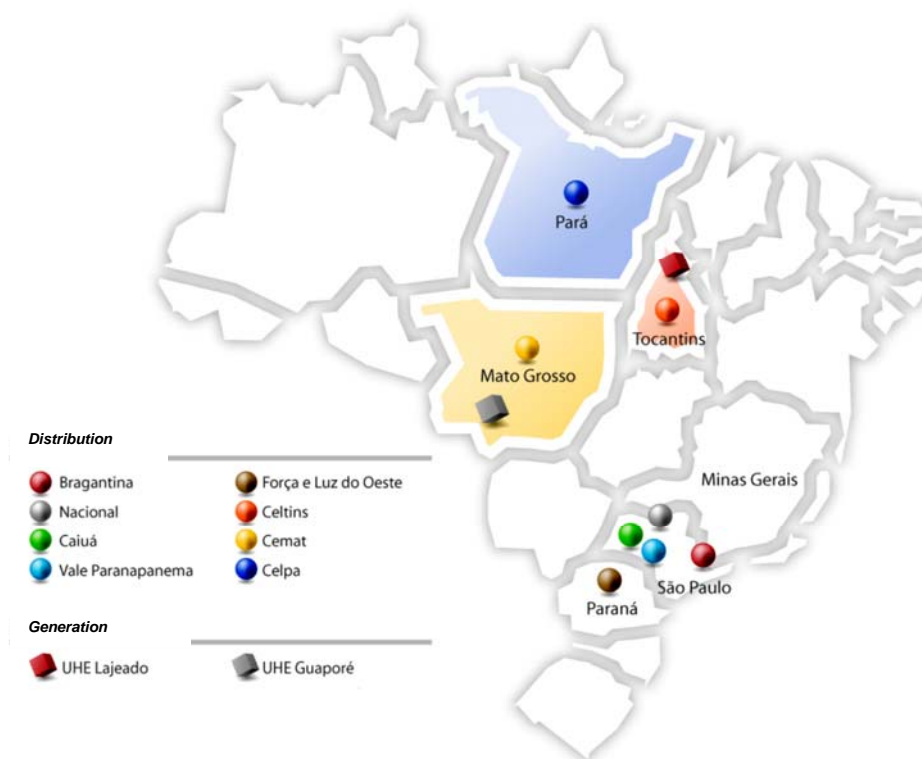
- *Expand and Strengthen our Electricity Trading Activities.* We intend to expand and strengthen our electricity trading activities through REDECOM, as these activities represent an important opportunity for us to maintain the loyalty of our customers, particularly free consumers and those that are located outside our concession areas, thereby enabling us to increase our customer base and gross operating revenue.
- *Further Solidify our Financial and Capital Structure.* We intend to improve our capital structure by extending the maturity profile and reducing the average interest rate that we pay on our outstanding indebtedness in order to successfully implement the strategies set forth above.

Our Distribution Business

In 2006, our electricity distribution operations accounted for 98.1% of our gross operating revenue on a consolidated basis. The vast majority of the gross operating revenue and electricity sales volumes of our distribution operations is derived from sales of electricity at regulated tariffs to customers that are prohibited under Brazilian law from acquiring electricity from another source, or captive customers. During 2006, sales to captive customers at regulated tariffs represented 96.6% of our volume of electricity distributed and 99.1% of our gross operating revenue from distribution operations. In addition, the number of potentially free customers relative to the total number of our captive customers is low. During 2006, approximately 3.4% of our electricity sales by volume were to potentially free customers.

Our distribution business involves the generation or purchase and sub-transmission of high voltage electricity (between 138kV and 69kV), its transformation into medium and low voltages and its distribution and sale to end-users. Our distribution business is subject to electricity distribution concession agreements and to comprehensive regulation by ANEEL and the MME. For further information regarding the regulation of the Brazilian electric power industry, see “The Brazilian Electric Power Industry.”

The following map illustrates the concession areas of our distribution companies and the locations of our generation companies.



The following table sets forth the gross operating revenue and total electricity sold by each of our distribution companies during the years indicated.

	For the Year Ended December 31,					
	2006		2005		2004	
	R\$ (1)	GWh	R\$ (1)	GWh	R\$ (1)	GWh
CEMAT.....	1,527.7	3,970	1,571.3	3,992	1,380.0	3,871
CELPA.....	1,618.0	4,713	1,510.4	4,634	1,352.7	4,412
CELTINS.....	412.0	962	343.7	927	273.1	879
EDEVP (2).....	198.1	645	—	—	—	—
Caiuá.....	250.3	890	235.4	856	204.7	804
Nacional.....	130.6	423	120.7	409	100.7	386
Bragantina.....	175.2	568	154.2	540	162.7	684
Força e Luz do Oeste.....	62.2	221	53.3	210	49.2	208
Total.....	4,374.1	12,392	3,989.0	11,568	3,523.1	11,244

(1) In millions.

(2) Represents sales by EDEVP prior to June 30, 2006, the date on which we acquired EDEVP.

Our Distribution Companies

CEMAT

CEMAT is the sole electricity distribution concessionaire in the state of Mato Grosso, Brazil's third largest state by area, covering approximately 10.6% of Brazil's land mass, with a concession that expires in 2027 and may be renewed for 30 years upon our request and its concession area covers approximately 903,000 square kilometers, including 141 municipalities with a total population of approximately 2.8 million. The principal economic activities in Mato Grosso are related to agribusiness. Mato Grosso has the largest cattle population in Brazil and is the largest producer of soy beans and cotton in Brazil.

In 2006, CEMAT sold 3,982 GWh of electricity to approximately 828,000 customers and sales by CEMAT represented 34.7% of our gross operating revenue. Rede owns 37.5% of the total share capital of CEMAT, including 57.5% of its voting share capital.

In addition to its extensive distribution network, CEMAT owns 25 thermoelectric power plants with a total installed capacity of 44.6 MW. CEMAT's thermoelectric power plants operate in isolated systems in its concession area and use diesel fuel to generate electricity. CEMAT's operating costs in its isolated systems are higher than those incurred in the portion of its distribution network that is connected to the interconnected system. In its isolated systems, CEMAT is only required to pay costs of electricity purchased for resale equivalent to the costs of hydroelectric power determined by ANEEL based on an annual reference value and the remainder of the electricity costs of these systems is paid for by the CCC.

CEMAT's principal place of business is located at Rua Manoel dos Santos Coimbra, 184, in the city of Cuiabá, in the State of Mato Grosso. CEMAT was incorporated on August 4, 1956. As of March 28, 2007, CEMAT's outstanding issued capital stock consisted of 105,534,853 shares, divided into 36,421,410 common shares and 69,113,443 preferred shares. All of CEMAT's shares are fully subscribed and paid-up, and in 2006, CEMAT did not distribute dividends. CEMAT's reported net income for the fiscal year ended December 31, 2006 was R\$83.8 million. As of December 31, 2006, Rede had outstanding debt obligations to CEMAT in an aggregate total amount of R\$59.7 million.

CELPA

CELPA is the sole electricity distribution concessionaire in the state of Pará, Brazil's second largest state by area, covering approximately 14.7% of Brazil's land mass, with a concession that expires in 2028 and may be renewed for 30 years upon our request. CELPA's concession area covers approximately 1.2 million square kilometers, including 143 municipalities with a total population of approximately 7.0 million. The principal economic activities in Pará are the mining of iron, bauxite, gold, manganese and kaolin. Pará is also active in cattle raising and tourism.

In 2006, CELPA sold 4,739 GWh of electricity to approximately 1.4 million customers and sales by CELPA represented 35.6% of our gross operating revenue. Rede owns, directly and indirectly, 43.4% of the total share capital of CELPA, including 65.2% of its voting share capital.

In addition to its extensive distribution network, CELPA owns 17 thermoelectric power plants with a total installed capacity of 20.2 MW. CELPA's thermoelectric power plants operate in isolated systems in its concession area and use diesel fuel to generate electricity. CELPA's operating costs in its isolated systems are higher than those incurred in the portion of its distribution network that is connected to the interconnected system. In its isolated systems, CELPA is only required to pay costs of electricity purchased for resale equivalent to the costs of hydroelectric power determined by ANEEL based on an annual reference value and the remainder of the electricity costs of these systems is paid for by the CCC.

CELPA's principal place of business is located at Rodovia Augusto Montenegro, km 8.5 in the city of Belém, in the State of Pará. CELPA was incorporated on August 31, 1960. As of March 28, 2007, CELPA's issued and outstanding stock consisted of 63,850,937,020 shares, divided into 59,397,496,833 common shares and 4,453,440,187 preferred shares. All of CELPA's shares are fully subscribed and paid-up. In 2006, CELPA paid dividends in the total aggregate amount of R\$21.0 million. CELPA's reported net income for the fiscal year ended December 31, 2006 was R\$79.4 million. As of December 31, 2006, CELPA had outstanding debt obligations to Rede in the aggregate total amount of R\$39.1 million. In addition, as of that same date, Rede had debt obligations to CELPA in an aggregate total amount of R\$212.6 million.

CELTINS

CELTINS is the sole electricity distribution concessionaire in the state of Tocantins, covering approximately 3.3% of Brazil's land mass, with a concession that expires in 2020 and may be renewed for 20 years upon our request. CELTINS's concession area covers approximately 278,000 square kilometers, including 139 municipalities with a total population of approximately 1.3 million. The principal economic activities in Tocantins include agribusiness, ranching, manufacturing and mining.

In 2006, CELTINS sold 964 GWh of electricity to approximately 345,000 customers and sales by CELTINS represented 9.7% of our gross operating revenue. Rede owns 50.9% of the total share capital of CELTINS, including 70.0% of its voting share capital.

CELTINS' principal place of business is located at 104 Norte, Complex 4, Lot 12-A in the city of Palmas, in the State of Tocantins. CELTINS was incorporated on March 20, 1989. As of March 28, 2007, CELTINS' issued and outstanding capital stock consisted of 378,733,957 shares, divided into 275,189,932 common shares and 103,544,025 preferred shares. All of CELTINS' shares are fully subscribed and paid-up. In 2006, CELTINS paid dividends in the total aggregate amount of R\$12.3 million. CELTINS' reported net income for the fiscal year ended December 31, 2006 was R\$47.3 million. As of December 31, 2006, CELTINS had outstanding debt obligations to Rede in the aggregate total amount of R\$8.0 million. In addition, as of that same date, Rede had debt obligations to CELTINS in an aggregate total amount of R\$28.1 million.

REDE SUL/SUDESTE

Our REDE SUL/SUDESTE operating unit is comprised of the following companies that operate in various municipalities or regions within the states of São Paulo, Minas Gerais and Paraná, which we manage together as one operating unit:

- EDEVP, with a concession area that covers 11,531 square kilometers, including 27 municipalities in the western portion of the state of São Paulo, with a total population of approximately 422,000. EDEVP is Rede's wholly owned subsidiary.
- Caiuá, with a concession area that covers 10,309 square kilometers, including 24 municipalities in the state of São Paulo, with a total population of approximately 547,000. Caiuá is Rede's wholly owned subsidiary.
- Nacional, with a concession area that covers 4,794 square kilometers, including 15 municipalities near Catanduva, São Paulo, with a total population of approximately 255,000. Rede owns 98.7% of the total share capital of Nacional, including 100% of its voting share capital.

- Bragantina, with a concession area that covers 3,500 square kilometers, including 15 municipalities in the states of São Paulo and Minas Gerais, with a total population of approximately 297,000. Rede owns 91.5% of the total share capital of Bragantina, including 96.4% of its voting share capital.
- Força e Luz do Oeste, with a concession area that covers 3,115 square kilometers, including the municipality of Guarapava in the state of Paraná, with a total population of approximately 167,000. Rede owns 97.7% of the total share capital of Força e Luz do Oeste, including 97.7% of its voting share capital.

The concessions of these companies expire in 2015 and may be renewed for 20 years upon our request. In 2006, these companies sold an aggregate of 2,747 GWh of electricity to approximately 587,000 customers, and sales by these companies represented 18.1% of our gross operating revenue. The principal economic activities in the concession areas served by these companies include industrial manufacturing, agribusiness (including the production of sugar and ethanol) and services.

Distribution Networks

As of December 31, 2006, we had approximately 166,000 kilometers of network and distribution lines. Our distribution networks are operated by centralized distribution operation centers that are designed to identify service problems. We believe this centralization results in greater efficiency and reduced operating costs. The following table sets forth information related to our distribution services as of December 31, 2006:

	CEMAT	CELPA	CELTINS	REDE SUL/ SUDESTE	Total
Sub-Transmission					
69kV lines (km)	374	1,137	664	188	2,363
88 kV lines (km)	—	—	—	96	96
138 kV lines (km)	3,153	1,840	1,559	94	6,646
230 kV lines (km)	—	11	—	—	11
Total.....	<u>3,527</u>	<u>2,988</u>	<u>2,223</u>	<u>378</u>	<u>9,116</u>
Substations					
Number of Substations.....	97	61	86	81	325
Substations MVA.....	1,770.7	1,653.2	1,071.7	1,607.4	6,102.9
Distribution					
Primary distribution network (km)	45,558	30,411	27,353	15,508	118,830
Secondary distribution network (km)	10,110	15,576	5,658	6,788	38,132
Total.....	<u>55,668</u>	<u>45,987</u>	<u>33,011</u>	<u>22,296</u>	<u>156,962</u>
Number of poles in the distribution network....	610,467	583,274	405,173	349,049	1,947,963
Number of distribution transformers	50,852	29,752	24,000	26,693	131,297
Installed capacity (MW)	1,262	1,317	553	998	4,130

Our distribution companies transfer electricity from power generators to customers through transmission, sub-transmission and distribution systems. Transmission is the bulk transfer of electricity at voltages of 230kV or greater from generation facilities and power stations to sub-transmission and distribution systems by means of a transmission grid. Sub-transmission is the bulk transfer of electricity that has been transformed from voltages of 230kV or higher to voltages of 138kV, 88 kV or 69kV from transmission systems to the distribution systems. Distribution is the transfer of electricity that has been transformed from voltages of 138kV, 88kV or 69 kV to voltages of 34.5kV or lower from transmission and sub-transmission systems to end-users. The sub-transmission and distribution systems of our distribution companies are integrated into the transmission grid of the regions of Brazil in which these companies operate.

Most of the electricity that our distribution companies purchase has a voltage of 69kV or greater and is transported from generation plants to our distribution companies' concession areas through high voltage lines operated by various

transmission companies, including Eletronorte and Furnas. Our distribution companies have multiple electrical supply connections through which they transport electricity to their distribution systems via their sub-transmission lines.

Sub-transmission (138kV, 88 kV and 69kV) and Substations

Our distribution companies' sub-transmission systems consists of 9,116 kilometers of overhead lines. Our 325 substations are connected to these systems of overhead and underground lines. Our sub-transmission systems are radial systems in which each of our substations is independently served by a dedicated sub-transmission line and are not linked together through a looped network. Under normal operating conditions, there are no restrictions on the transmission of power via our sub-transmission lines. We conduct regular studies of their sub-transmission systems in order to serve the electricity market under both regular and emergency conditions and to ensure maximum supply of electricity.

Our distribution companies operate 325 distribution substations with a total transformer capacity of 6,103 MVA. Our substations, like those throughout the electricity industry, are designed to carry a higher load than is necessary during normal operations. Each distribution substation consists of a series of transformers and has two sub-transmission sources, a preferential source and a reserve source. If the preferential source is shut down, each distribution substation has an automatic transfer relay designed to switch the substation to the reserve sub-transmission line within 30 seconds in order to ensure that the loss of any one element does not result in a longer loss of supply.

Distribution (2.8kV to 34.5kV)

Our distribution companies operate 93,554 aerial distribution circuits with voltages of 13.8 kV, 19.9 kV, 34.5 kV and 40 kV (primary network), which are connected to our substations. Our primary networks consist of 118,830 kilometers of overhead cables. Our medium voltage customers are directly supplied by our primary network.

Our distribution companies operate aerial distribution cables with voltages of 127/220V (secondary network), which are connected to 131,297 distribution transformers that are connected to our primary networks. Our secondary networks consist of 38,132 kilometers of overhead cables. Our low voltage customers are supplied by our secondary network.

Maintenance and Expansion of Distribution Systems

We have developed plans to maintain and repair our distribution facilities to prevent power outages and electricity losses in our sub-transmission lines. For serious power outages, such as transformer failures, we have positioned spare transformers and replacement equipment in strategic substations to attempt to minimize the duration of the power outage. We have prepared these plans for each of our distribution companies to prevent or limit power outages and the related inconvenience to our customers. To minimize power outages resulting from fallen tree limbs and damage to our distribution transformers, the principal causes of circuit interruptions, we have implemented tree trimming and cable replacement programs in conjunction with municipalities within our service areas, as well as a transformer maintenance program.

The maintenance and expansion of our distribution networks usually require us to construct new facilities and install new equipment, which may be delayed for several reasons, including unforeseen engineering or environmental problems. However, eventual losses resulting from insufficiencies in our distribution networks due to delays in construction and equipment installation are usually reduced because our distribution systems are designed to withstand temporary overloads within predefined and monitored limits, and our maintenance and expansion plans generally contemplate alternative construction solutions.

We invested approximately R\$862.0 million in 2006, R\$566.5 million in 2005 and R\$327.4 million in 2004 in maintaining and expanding our distribution systems. In addition, in an effort to reduce our electricity losses and to connect new customers previously served by thermoelectric power plants in our isolated systems, we invested \$50.8 million in 2005 to connect the municipalities of Brasnorte, Juína and Juara to our distribution system in Mato Grosso.

Light For All Program

We also invested R\$514.2 million in 2006, R\$241.0 million in 2005 and R\$46.2 million in 2004 in the Light for All Program, which was created by the Brazilian government in November 2003 to provide electricity services to all rural areas in Brazil by 2008. We provided 15% of this amount while 65% was provided by the CDE in the form of a grant, 10% was provided by the RGR Fund financed by Eletrobrás, and 10% was provided by state government subsidies.

The following table shows the number of new connections by CEMAT, CELPA and CELTINS as a result of the Light for All Program for the periods presented:

	Year Ended December 31,			Total
	2006	2005	2004	
CEMAT	12,634	11,204	2,256	26,094
CELPA	56,984	25,238	5,922	88,144
CELTINS	8,753	7,195	1,219	17,167
Total.....	78,371	43,637	9,397	131,405

On May 12, 2005, CELPA entered into a construction contract with Construtora Andrade Gutierrez S.A. for the performance of engineering and construction services in an aggregate amount of R\$466.0 million in connection with the implementation of the Light for All Program.

Quality of Service Indicators

The level of quality and efficiency of the distribution system of an electricity distribution concessionaire is generally evaluated in terms of the DEC and FEC indices. The DEC and FEC targets to be met by concessionaires are established by ANEEL and published in customer's invoices. These targets vary from one distributor to another based on the individual characteristics of their concession areas. Accordingly, each of our distribution companies is subject to different DEC and FEC targets determined by ANEEL.

Over the last nine years, the DEC and FEC indices of CEMAT, CELPA and CELTINS have improved significantly, primarily as a result of investments in their distribution networks after we acquired them through privatization. However, during the last two years, their DEC and FEC indices have increased slightly primarily as a result of the addition of new rural customers through the Light for All Program. All of our distribution companies met the DEC and FEC targets ANEEL established for them for 2006, 2005 and 2004, except CELPA which exceeded its DEC target by 0.17% in 2005 and 30.65% in 2006 and exceeded its FEC target by 8.78% in 2006 without incurring any penalties from ANEEL.

The improvement in the quality indices of these companies was primarily due to:

- investments in their distribution networks;
- the installation of new switches and insulated cables;
- effective training programs for operating personnel; and
- an increase in the number of emergency response teams in large municipalities.

The quality of service indices of the companies in our REDE SUL/SUDESTE operating unit have remained stable due to the maturity of their distribution networks and the smaller size of their concession areas.

The tables below set forth the duration (in hours per year) and frequency of outage occurrences in CEMAT's, CELPA's and CELTINS's distribution networks, compared to ANEEL reference values for these companies, from 1998 (the year that we acquired CEMAT and CELPA through privatization) through 2006.

DEC	Year ended December 31,								
	2006	2005	2004	2003	2002	2001	2000	1999	1998
CEMAT:									
ANEEL target	39.47	41.96	43.72	46.45	48.10	49.85	43.81	59.02	43.04
Actual	26.13	30.56	31.16	24.50	22.61	22.70	29.00	42.07	66.60
Percentage difference	(33.80)	(27.17)	(28.73)	(47.26)	(52.99)	(54.46)	(33.81)	(28.72)	54.74
CELPA:									
ANEEL target	32.63	33.76	35.98	35.07	40.00	40.00	30.00	30.00	30.00
Actual	42.63	34.43	31.04	29.41	32.83	29.44	28.59	39.53	106.19
Percentage difference	30.65	0.17	(13.73)	(16.14)	(17.93)	(26.40)	(4.7)	31.76	253.97
CELTINS:									
ANEEL target	52.30	59.40	43.50	48.10	51.80	57.00	69.20	69.20	30.00
Actual	50.63	41.80	33.30	38.50	45.50	42.80	42.70	70.00	84.80
Percentage difference	(3.19)	(29.63)	(23.45)	(19.96)	(12.16)	(24.91)	(38.29)	1.16	182.66

FEC	Year ended December 31,								
	2006	2005	2004	2003	2002	2001	2000	1999	1998
CEMAT:									
ANEEL target	36.33	40.14	43.75	51.75	56.12	60.47	55.13	77.44	52.99
Actual	26.35	22.36	24.66	25.97	26.25	30.17	39.75	64.96	100.70
Percentage difference	(27.47)	(44.29)	(43.63)	(49.81)	(53.23)	(50.11)	(27.90)	(16.12)	90.04
CELPA:									
ANEEL target	33.61	35.21	37.70	35.03	40.00	40.00	45.00	45.00	45.00
Actual	36.56	32.58	30.75	31.65	38.36	31.82	30.26	39.62	64.66
Percentage difference	8.78	(9.02)	(18.44)	(9.65)	(4.35)	20.45	(32.76)	(11.96)	43.69
CELTINS:									
ANEEL target	43.80	49.70	37.00	41.10	45.00	50.10	69.20	73.60	45.00
Actual	35.98	33.70	27.90	31.30	34.70	39.80	39.90	78.90	107.30
Percentage difference	(17.85)	(32.19)	(24.59)	(23.84)	(22.89)	(20.55)	(42.34)	7.20	138.44

ANEEL recently withdrew the customer satisfaction index from calculation of the X factor, and this index will not be used in our next periodic tariff revisions. In addition, ANEEL recently enacted new regulations under which we will be required to comply under penalty of law with minimum pre-established targets measured by a new quality of service indicator related to customer satisfaction.

Electricity Losses

Our results of operations are affected by electricity losses because this electricity could have otherwise been distributed to end customers or other concessionaires, reducing the need to purchase electricity for resale. We experience two types of electricity losses in our distribution activities: technical losses and commercial losses. Technical losses are inherent to the distribution of electricity, as a portion of the electricity we distribute inevitably dissipates in the course of transmission. Technical losses consist of the quantity of electricity we purchase that is not consumed by our customers. Commercial losses result from illegal connections, theft, fraud, faulty metering and billing errors. Commercial losses consist of the quantity of electricity consumed by customers and others that is not converted into revenue. Our total average electricity losses in 2006 were 18.5%, 11.2% of which were technical losses and 7.3% of which were commercial losses.

The electricity losses of the companies in our REDE SUL/SUDESTE operating unit have remained stable over the last three years. In 2006, 2005 and 2004, the average technical losses of the companies in our REDE SUL/SUDESTE

operating unit were 6.8%, 5.9% and 5.5%, respectively, and the commercial losses of these companies were 0.3%, 0.3% and 0.3%, respectively.

The following table sets forth CEMAT's, CELPA's and CELTINS's electricity losses as a percentage of total purchased for resale during the periods indicated:

	Year Ended December 31,								
	2006	2005	2004	2003	2002	2001	2000	1999	1998
	(percentage of electricity purchased for resale)								
CEMAT:									
Technical losses.....	9.78	8.12	8.76	8.79	8.74	9.22	10.29	11.57	11.49
Commercial losses.....	5.86	6.07	5.58	4.47	6.18	6.16	6.76	8.25	8.50
Total	15.64	14.19	14.34	13.26	14.92	15.38	17.05	19.82	19.99
CELPA:									
Technical losses.....	14.00	14.00	14.00	14.50	14.90	15.30	15.30	15.50	15.50
Commercial losses.....	12.25	9.62	7.56	6.23	6.47	6.75	7.76	13.75	16.80
Total	26.25	23.62	21.56	20.73	21.37	22.05	23.06	29.25	32.30
CELTINS:									
Technical losses.....	14.20	13.63	13.56	12.37	8.35	9.62	10.20	10.08	15.63
Commercial losses.....	4.74	4.27	3.80	4.64	8.97	6.65	5.08	6.85	6.77
Total	18.94	17.90	17.36	17.01	17.32	16.27	15.28	16.93	22.40

One of our priorities is to reduce the commercial losses of CEMAT, CELPA and CELTINS. The commercial losses of the companies in our REDE SUL/SUDESTE operating unit are not material to our results of operations.

In 1998, CEMAT, CELPA and CELTINS adopted a comprehensive plan to reduce electricity losses and recover revenue, including:

- repairing, where necessary, usage meters to reduce reading flaws, which repairs we make to our own facilities or are made by third-party service providers. We identify defective meters through inspections, while reading meters or by analyzing electricity invoices.
- installing usage meters on distribution poles, rather than inside customers' homes, to reduce tampering and illegal connections. The usage meters are installed in boxes made of galvanized steel with a high level of resistance to corrosion and include security locks and seals.
- initiating campaigns to promote on time payments, as well as adopting new collection strategies to recover overdue accounts receivable and negotiate outstanding debts.
- installing intermediate usage meters in the distribution network to assist in locating the sources of the losses.
- implementation of a system that permits residents in our concession areas to anonymously report illegal connections, meter tampering or other forms of fraud by telephone. After we receive an anonymous tip, we generate a service order to investigate the irregularity and have generally been successful in locating and resolving the related problem.

In implementing our electricity loss reduction programs, our distributors rely on the support of specially created police task forces that investigate the theft of electricity and other public services. We also identify illegal connections or meter tampering when electricity consumption exceeds invoiced amounts. As a result of these measures, CEMAT's, CELPA's and CELTINS's electricity loss rates decreased from 20.0%, 32.3% and 22.4%, respectively, in 1998 to 15.6%, 26.2% and 18.9%, respectively, in 2006. However, due to difficulties in obtaining financing to fund our investments during the period following the Rationing Program, we decreased the level of our investments to reduce electricity losses, which resulted in increased losses beginning in 2004.

Customers and Tariffs

Customers

Electricity distribution services are provided to a market that is divided into captive customers, which acquire electricity provided by the distributor and pay for its use of the network, and free customers, which may select a different electricity supplier and pay only for the use of a distribution network.

Our electricity distribution companies' captive customers are classified into five main categories: industrial; residential; commercial; rural; and others (which include governmental institutions and public services).

- *Residential Customers.* As of December 31, 2006, we had approximately 2.6 million residential customers. Consumption by our residential customers accounted for 35.6% of our total volume of electricity sold in 2006, 35.5% in 2005 and 34.1% in 2004. The residential customer category is our most profitable category.
- *Industrial Customers.* As of December 31, 2006, we had approximately 26,000 industrial customers, including large volume users. Consumption by our industrial customers accounted for 20.9% of our total volume of electricity sold in 2006, 21.9% in 2005 and 24.8% in 2004. Some free customers that were our captive customers prior to 2004 have continued to purchase electricity through our trading company subsidiary, REDECOM.
- *Commercial Customers.* As of December 31, 2006, we had approximately 263,000 commercial customers, including retail enterprises, offices, banks, service-oriented businesses, private universities and private hospitals. Consumption by our commercial customers accounted for 21.1% of our total volume of electricity sold in 2006, 21.3% in 2005 and 20.4% in 2004.
- *Rural Customers.* As of December 31, 2006, we had approximately 186,000 rural customers. Consumption by our rural customers accounted for 6.5% of our total volume of electricity sold in 2006, 6.1% in 2005 and 5.7% in 2004.
- *Other Customers.* As of December 31, 2006, we had approximately 37,000 other customers, including public sector, public lighting and public services customers. Consumption by our other customers accounted for 15.8% of our total volume of electricity sold in 2006, 15.2% in 2005 and 15.0% in 2004.

Customers are also classified by voltage levels, based on their installed load and/or contracted demand. We refer to industrial and commercial customers that receive electricity at high voltage levels (up to 138 kV) as Class A customers, and we refer to industrial, commercial and residential customers that receive electricity at lower voltage levels (equal to or less than 69kV) as Class B customers.

The following table sets forth the gross operating revenue and total electricity distributed (excluding our own consumption) for CEMAT, CELPA, CELTINS and our REDE SUL/SUDESTE operating unit, on an aggregate basis and by type of customer, for the periods indicated.

	Year Ended December 31,								
	2006			2005			2004		
	R\$ (1)	GWh	%	R\$ (1)	GWh	%	R\$ (1)	GWh	%
CEMAT									
Residential	530.1	1,336	33.7%	538.3	1,300	32.6%	470.4	1,211	31.3%
Industrial	294.7	765	19.3	321.4	851	21.3	303.7	977	25.2
Commercial	427.1	918	23.1	433.5	907	22.7	372.0	829	21.4
Rural.....	107.2	416	10.5	112.1	417	10.5	88.7	369	9.5
Others	168.5	535	13.4	166.0	517	12.9	145.2	486	12.6
Total	1,527.6	3,970	100.0%	1,571.3	3,992	100.0%	1,380.0	3,871	100.0%
CELPA									
Residential	674.7	1,806	38.3%	627.1	1,771	38.2%	568.9	1,658	37.6%
Industrial	280.8	988	21.0	267.4	1,017	21.9	228.2	991	22.5
Commercial	413.6	1,044	22.1	390.2	1,014	21.9	348.7	956	21.6
Rural.....	23.1	83	1.8	19.7	74	1.6	16.6	65	1.5
Others	225.9	792	16.8	206.0	758	16.4	190.3	742	16.8
Total	1,618.1	4,713	100.0%	1,510.4	4,634	100.0%	1,352.7	4,412	100.0%
CELTINS									
Residential	175.2	357	37.1%	147.0	344	37.1%	114.9	323	36.8%
Industrial	35.9	104	10.8	31.8	108	11.7	27.8	111	12.6
Commercial	108.3	204	21.2	89.5	197	21.2	70.5	182	20.7
Rural.....	22.3	79	8.2	17.1	70	7.6	13.1	65	7.4
Others	70.2	218	22.7	58.3	208	22.4	46.8	198	22.5
Total	411.9	962	100.0%	343.7	927	100.0%	273.1	879	100.0%
REDE SUL/ SUDESTE (2)									
Residential	346.9	932	33.9%	245.2	688	34.2%	214.4	646	31.0%
Industrial	183.3	743	27.1	125.1	560	27.8	131.2	705	33.9
Commercial	155.6	459	16.7	110.0	348	17.3	96.5	327	15.7
Rural.....	42.4	232	8.4	25.6	148	7.3	22.6	138	6.6
Others	88.2	381	13.9	57.8	271	13.4	52.7	266	12.8
Total	816.4	2,747	100.0%	563.7	2,015	100.0%	517.4	2,082	100.0%
TOTAL									
Residential	1,727.0	4,431	35.6%	1,557.6	4,104	35.5%	1,368.6	3,838	34.1%
Industrial	853.1	2,600	20.9	745.8	2,536	21.9	690.9	2,783	24.8
Commercial	1,104.6	2,625	21.1	1,023.2	2,465	21.3	887.7	2,294	20.4
Rural.....	195.0	810	6.5	174.5	709	6.1	141.0	637	5.7
Others	734.7	1,971	15.8	488.0	1,754	15.2	435.0	1,691	15.0
Total	4,614.7	12,437	100.0%	3,989.1	11,568	100.0%	3,523.2	11,243	100.0%

(1) In millions.

(2) Includes EDEVP after June 30, 2006, the date of our acquisition of EDEVP.

In 2006, the number of our distribution customers and the total volume of distributed electricity increased by 5.4% and 2.8%, respectively. The total volume of distributed electricity represents the sum of electricity sold to end-users or other distributors and electricity that is transmitted through our distribution networks for consumption by free customers or delivery to other concessionaires. This growth in distributed electricity corresponded with a period of economic recovery, which also had an impact on residential consumption.

The impact from this period of economic recovery, however, was not uniform throughout the concession areas of our electricity distribution companies:

- in the states of Mato Grosso, Pará and Tocantins, where agribusiness is particularly relevant, there were increases of 1.7%, 4.1% and 3.5% in the volume of distributed electricity, respectively; and
- in the states of São Paulo, Minas Gerais and Paraná, where we have a greater number of residential and industrial customers and free customers, there was a 3.0% increase on average in the volume of distributed electricity.

Potentially Free Customers

Potentially free customers are customers with a contracted demand above 3 MW that were connected to our distribution networks at a voltage level of 69 kV or higher prior to July 8, 1995 or have been connected to our distribution networks at any voltage level since July 8, 1995. The number of our potentially free customers relative to the total number of our captive customers is small. During the year ended December 31, 2006, we derived approximately 1.4% of our gross sales revenue from electricity sales to potentially free customers and sold 3.4% of our total volume of electricity to potentially free customers.

Applicable Tariffs

Our electricity distribution companies operate with regulated tariffs, and their operating results are therefore subject to tariff adjustments and revisions approved by ANEEL. Our concession agreements contain provisions for periodic and annual tariff adjustments and the possibility of extraordinary tariff revisions. See “Management’s Discussion and Analysis of Financial Condition and Results of Operation—Electricity Distribution Business—Distribution Tariffs.”

The following table sets forth average tariff information by type of customer for CEMAT, CELPA, CELTINS and our REDE SUL/SUDESTE operating unit for the periods indicated.

	Year Ended December 31,		
	2006	2005	2004
	(in reais/MWh)		
CEMAT:			
Residential	396.7	414.1	388.6
Industrial.....	385.3	377.6	311.0
Commercial	465.0	477.9	448.9
Rural	257.9	268.8	240.4
Other	315.1	321.0	298.9
Average total	384.8	393.6	356.5
CELPA:			
Residential	373.6	354.1	343.0
Industrial.....	284.3	262.9	230.3
Commercial	396.4	384.8	364.6
Rural	278.1	265.8	254.5
Other	285.2	271.7	256.5
Average total	343.4	325.9	306.5
CELTINS:			
Residential	491.0	427.0	356.3
Industrial.....	344.2	294.1	250.5
Commercial	531.7	454.3	387.2
Rural	283.9	244.4	200.9
Other	322.0	280.5	236.5
Average total	428.4	370.6	310.8
REDE SUL/SUDESTE:			
Residential	372.3	356.2	331.9
Industrial.....	246.7	286.5	186.1
Commercial	338.6	415.9	294.9
Rural	182.6	273.8	163.8
Other	231.4	303.3	198.4
Average total	297.2	334.0	248.5

Tariff for Use of the Distribution System (TUSD)

A customer that opts for the free market nevertheless continues to pay TUSD charges to distribution companies for use of their distribution systems. However, ANEEL authorized free customers to cease paying TUSD charges to the local distributor if they build their own distribution network and connect it to the interconnected network. If any free customers elect to build their own distribution network, the gross operating revenue of the affected distributor may be adversely affected. The reduction of revenue derived from the migration of customers to the free market does not generally cause a material reduction of profit margins for a distributor because compensation for the distributor's investment comes from TUSD charges, which continues to be paid to the distributor even after a potentially free customer switches to another electricity supplier. During the year ended December 31, 2006, 61.6% of the revenue that we received through TUSD was related to free customers.

The following table shows the gross operating revenue from TUSD charges by free customers and other concessionaires, representing electricity in transit through our network, for the periods indicated. For more information see "The Brazilian Electric Power Industry—Electricity Distribution Tariffs—Tariffs Applicable to Free Customers."

	Year Ended December 31,		
	2006	2005	2004
	(in millions of reais)		
CEMAT	44.1	27.6	12.4
CELPA	13.4	4.6	—
CELTINS	2.8	0.3	—
REDE SUL/SUDESTE	16.3	12.1	3.2
Total	76.3	44.6	15.6

Purchase of Electricity for Distribution

Electricity Supply

The supply of electricity for distribution in Brazil has historically been heavily regulated. In connection with the National Privatization Program and to ensure that the transition from a regulated to a deregulated market would be as smooth as possible, electricity generators and distributors were required to enter into initial contracts. The initial contracts contained non-negotiable price (based in *reais*) and quantity terms that were regulated by ANEEL. The volume of electricity sold and purchased by us pursuant to initial contracts remained steady from 1998 through 2002, but in accordance with ANEEL regulations, began to decline by 25.0% annually beginning on December 31, 2002 and expired on December 31, 2005.

We currently have two basic types of supply arrangements: (1) purchases of electricity through public auctions, which accounted for approximately 54.9% of our electricity purchased for resale during the year ended December 31, 2006; and (2) long-term and short-term bilateral agreements with private generators, which accounted for 37.5% of our electricity purchased for resale during the year ended December 31, 2006. Our remaining energy supply contracts, which accounted for 7.7% of our electricity purchased for resale during the year ended December 31, 2006, include contracts under the PROINFA program and with Eletronorte, Itaipu and some generation companies that we sold in 2005 and 2006.

The following table sets forth the amount of electricity, including from our principal sources of electricity supply for the periods indicated.

	Year Ended December 31,		
	2006	2005	2004
	(in MWh)		
Initial supply contracts	—	2,947,676	7,177,922
Bilateral contracts	5,698,811	5,644,000	4,854,838
PROINFA (1)	58,036	—	—
Eletronorte bilateral contracts	621,960	621,960	667,584
Itaipu	580,051	582,327	536,908
Furnas (2)	(700,800)	(700,800)	—
Auction Contracts:			
CCEAR—first lot	5,089,144	4,965,481	—
CCEAR—second lot	3,300,734	—	—
Spun-off generation companies	533,935	83,416	—
Total electricity purchased	15,181,871	14,144,060	13,237,252
Self-generation – Hydroelectric	1,805	639,527	217,810
Self-generation – Thermoelectric	445,633	514,003	469,633
Total	15,629,309	15,297,590	13,924,695

(1) For a description of PROINFA, see “The Brazilian Electric Power Industry.”

(2) Represents electricity delivered to Furnas in payment of obligations incurred with Furnas during the Rationing Program.

Initial Contracts

Until their expiration at the end of 2005, our distribution companies purchased electricity pursuant to initial contracts with Eletronorte, Duke Energy, AES Tietê S.A., CEMIG, Furnas, COPEL and Rosal Energia S.A., or Rosal, under which monthly demand amounts (except in respect of Rosal, through which we purchased electricity that was not based on pre-established amounts), annual electricity amounts and respective tariffs were established by ANEEL. Under these contracts, we purchased an aggregate amount of 2,948 GWh in 2005 and 6,969 GWh in 2004.

Auction Contracts

Our distribution companies have purchased electricity in public auctions at the MAE, which was replaced by the CCEE in August 2004. The contracts arising from these auctions, known as electricity purchase agreements entered into in the regulated market (*Contrato de Compra de Energia no Ambiente Regulado*), or CCEAR contracts, were formalized with the relevant electricity sellers in accordance with the terms and conditions established in the invitation to bid.

The following table sets forth the amounts of electricity contracted, average tariff and terms related to the CCEAR contracts arising from the electricity lots that we acquired in these auctions:

Average Tariff (reais/MWh)	Electricity Contracted (MW – average per year)	Commencement Date	Expiration Date
57.51	584	January 1, 2005	December 31, 2012
67.33	406	January 1, 2006	December 31, 2013
75.46	183	January 1, 2007	December 31, 2014
83.13	93	January 1, 2008	December 31, 2015
94.91	15	January 1, 2009	December 31, 2016
127.15	32	January 1, 2008	December 31, 2038 (hydroelectric) December 31, 2023 (thermoelectric)
127.81	54	January 1, 2009	December 31, 2038 (hydroelectric) December 31, 2023 (thermoelectric)
117.22	150	January 1, 2010	December 31, 2038 (hydroelectric) December 31, 2023 (thermoelectric)

Bilateral Contracts

Our distribution companies entered into bilateral contracts with several generation companies (including our generation companies) prior to the enactment of the New Electricity Law, which remain in effect. These contracts represent 32.9% of the total electricity that our distribution companies purchased in 2006, at an average price of R\$104.17 per MWh.

Eletronorte Bilateral Contracts

In 2003, CELPA and CELTINS entered into bilateral contracts with Eletronorte that expire in 2008. In 2006, CELPA and CELTINS purchased 622 GWh at an average tariff of R\$71.70 per MWh under these contracts, which represented 7.5% and 12.3% of the total electricity purchased by CELPA and CELTINS, respectively, in 2006.

Itaipu Electricity

Itaipu is the largest hydroelectric plant in operation in the world, with an installed capacity of 12,600 MW, located on the border between Brazil and Paraguay. The Brazilian government holds a 50% equity interest in Itaipu through Eletrobrás, and the remaining 50% equity interest is held by the government of Paraguay. CELTINS and CEMAT, as well as distributors in the South, Southeast and Midwestern regions of Brazil, are required to purchase electricity from Itaipu at rates that are tied to the U.S. dollar, in order to fund the operating expenses of Itaipu and the payments of principal and interest on loans made to Itaipu in U.S. dollars as well as the costs of transmitting the electricity to the interconnected power system. Thus, fluctuations of the U.S. dollar to *real* exchange rate affect the cost, in real terms, of the electricity that our distributors are required to purchase from Itaipu. However, variations in the price of electricity generated by Itaipu are subject to reimbursement as part of the Part A costs. Our electricity distribution companies incurred expenses with Furnas/Eletrobrás in an aggregate amount of R\$48.1 million in 2006, R\$48.1 million in 2005 and R\$48.1 million in 2004 in respect of electricity supplied by Itaipu.

Self-Generation of Electricity

We generate part of the electricity that we consume through thermoelectric power plants owned by CELPA and CEMAT and the electricity generation plants that our distribution companies spun-off as part of the restructuring of our operations in accordance with the New Electricity Law in November 2005. In 2006, these power plants generated an aggregate amount of 534 GWh, which represented 3.5% of the total amount of electricity purchased by our distribution companies.

In 2006, we purchased 2,473 GWh of electricity from the Lajeado hydroelectric plant and the Guaporé hydroelectric plant, representing 16.3% of total electricity purchased in 2006. The assured energy of the Lajeado hydroelectric plant and the Guaporé hydroelectric plant is 4,613 GWh per year (526.6 MW average) and 527 GWh per year (60.2 MW average), respectively. The Lajeado hydroelectric plant supplies electricity to Caiuá, EDEVP, Nacional, Bragantina, CELTINS, CEMAT and REDECOM, and the Guaporé hydroelectric plant supplies electricity to CEMAT.

Billing, Payment Defaults and Credit Control Policies

Billing Procedures

Our customers are billed under one of the following tariff systems: (1) the conventional tariff system, which is applied to both Group A and Group B customers; or (2) the hour-seasonal tariff system, which is only applied to certain Group A customers. The conventional tariff system applies a flat rate, regardless of any seasonal or time-of-day variations. The hour-seasonal tariff system, on the other hand, takes into account both seasonal and time-of-day variations and establishes different rates for different times of the day and different seasons of the year. Seasonal variation differentiates between the dry season (May through October) and the rainy season (November through April). Tariffs are higher during the dry season when the supply of hydroelectric power tends to be lower. Higher tariffs also apply during peak hours of demand.

Meter readings and invoicing take place on a monthly basis for all of our customers, with the exception of rural customers, whose meters are read at intervals varying from one to three months (although, if the meter reading does not occur, these rural customers are still invoiced monthly based on their recent average consumption). Invoices are prepared from meter readings or on the basis of estimated usage, according to the meter reading calendars and invoicing established, with payment due within five business days after the invoice date.

Collection Procedures

We consider the management and control of customer payment defaults as a priority and have established goals to reduce the level of payment defaults and increase the amounts we collect.

In case of non-payment of an invoice issued to a Group B customer, we issue a non-payment notice with the following invoice, with payment due within 15 days. If payment is not received within this 15-day period, we may suspend the customer's electricity supply. In case of non-payment by Group A customers, a notice is sent to the customer four business days after the due date, with payment due within 15 days. If payment is not made within 15 days after the notice date, we may suspend the customer's electricity supply.

In addition to suspending the electricity supply of customers that do not pay their invoices, we also use the following methods to collect overdue payments:

- **Debt collectors:** We contract debt collectors to recover past due amounts owed by customers whose electricity supply we have suspended and whose invoices have been past due by 90 days or more.
- **Installment payments:** In certain cases, we negotiate installment payment plans with customers that generally require the customer to pay an initial amount of 30% to 40% of the total past due amount. We charge penalties and the remaining balance repaid over time accrues interest at market rates. We terminate these installment payment plans if the customer fails to pay any installment in a timely manner.
- **Legal actions:** If we are unable to recover past due amounts from a customer through debt collectors and are unable to negotiate an installment plan with that customer, the past due account is referred to our legal department which files a legal action to collect the past due amount.

The following table shows the amount of overdue accounts receivable for CEMAT, CELPA, CELTINS and our REDE SUL/SUDESTE operating unit for the periods indicated.

	Year Ended December 31,		
	2006	2005	2004
	(in millions of <i>reais</i>)		
CEMAT	221.5	205.7	168.2
CELPA	154.4	125.6	93.5
CELTINS.....	34.9	29.7	18.9
REDE SUL/SUDESTE.....	39.0	25.2	16.5
Total.....	449.8	386.2	297.1

Unfavorable macroeconomic conditions, primarily in regions where the principal economic activity is agribusiness, contributed to a decrease in income for some of our customers, which gradually led to higher levels of overdue accounts receivable.

Our Generation Business

The electricity we generate is primarily hydroelectric energy. The electricity generated is transmitted through our own systems or by third parties to our electricity distribution companies that distribute the electricity to end users. Our generation companies also sell the electricity they generate to electricity traders or distributors under long-term contracts, as determined by ANEEL. The amount of electricity which generation companies are allowed to sell under long-term contracts is referred to as assured electricity.

In 2006, our electricity generation operations accounted for 7.3% of our total gross operating revenue (prior to intercompany eliminations), and include:

- Rede's indirect ownership of 20.2% of the total share capital, including 42.4% of the voting share capital, of Investco, the leader of the consortium that owns the concession for the Lajeado hydroelectric plant. As a result of our investment in Investco, we are entitled to 45.4% of the total electricity generated by the Lajeado hydroelectric plant, located on the Tocantins River, with a total installed capacity of 902.5 MW.
- Rede's direct ownership of 61.7% of the total share capital, including 100% of the voting share capital, of Tangará, which owns 64.0% of the concession to operate the Guaporé hydroelectric plant. As a result of our investment in Tangará, we are entitled to 64.0% of the total electricity generated by the Guaporé hydroelectric plant, located on the Guaporé River, with a total installed capacity of 120.0 MW.

On September 21, 2006, we sold our subsidiary Celtins Energética S.A., which owned three PCHs with a combined installed capacity of 15.4 MW, to Tocantins Holdings, Ltda., a Brazilian company affiliated with the BRENNAND Group, for R\$33.9 million. On June 8, 2006, we entered into an agreement to sell 10 of our subsidiaries, as well as our interests in Quatiara Energia S.A. and Vale Energética S.A., which collectively owned 22 additional PCHs with a combined total installed capacity of 96.3 MW, to Enel Latin América LLC for an aggregate amount of R\$463.6 million. This transaction closed on October 6, 2006, other than the sale of one of these subsidiaries, Juruena Energia S.A., the purchase of which is conditioned on a final decision in a civil action pending against Juruena Energia S.A. Following the sale of Juruena Energia S.A., we will no longer have any interests in PCHs.

Lajeado Hydroelectric Plant

The Lajeado hydroelectric plant, located on the Tocantins River, in the state of Tocantins, became fully operational in 2002 with five turbines, each with the capacity to generate 180.5 MW, providing a total installed capacity of 902.5 MW.

The concession for the Lajeado hydroelectric plant, which is valid for a term of 35 years, was awarded by the Brazilian government to the winning consortium in an auction held on December 16, 1997. Currently, this consortium is comprised of Investco, Rede Lajeado, EDP Lajeado Energia S.A., (a company controlled by Grupo Energias do Brasil), CEB Lajeado S.A. (a company controlled by the Brazilian government and the government of São Paulo), and Paulista

Lajeado Energia S.A. (a controlled company of CMS Group), collectively (excluding Investco) referred to as Investco Shareholders. On November 17, 1997, the Investco Shareholders entered into a Shareholders Agreement.

Rede directly and indirectly owns 53.6% of the total share capital of Rede Lajeado, including 93.6% of its voting share capital. Rede Lajeado's principal place of business is located at Avenida Paulista, 2439 in the city of São Paulo in the State of São Paulo. Rede Lajeado was incorporated on October 7, 1999. As of March 28, 2007, Rede Lajeado's issued and outstanding capital stock consisted in 132,793,454 shares, divided into 79,583,117 common shares and 53,210,337 preferred shares. All of Rede Lajeado's shares are fully subscribed and paid-up. In 2006, Rede Lajeado paid dividends in the total aggregate amount of R\$31.7 million. Rede Lajeado's reported net income for the fiscal year ended December 31, 2006 was R\$36.0 million. As of December 31, 2006, Rede had debt obligations to Rede Lajeado in an aggregate total amount of R\$24.0 million.

Through Rede Lajeado, we own 20.2% of the total share capital, including 42.4% of the voting share capital, of Investco, the leader of the consortium that owns the concession for the Lajeado hydroelectric plant. Our participation in the consortium and in the share capital of Investco gives us the right to 45.4% of the total electricity generated by the Lajeado hydroelectric plant. We also have the right to 50.2% of the net income generated by the Lajeado hydroelectric plant, including 49.7% of Rede Lajeado's net income to which Eletrobras has a right under a shareholders agreement. See "Principal Shareholders—Shareholders' Agreements—Rede Lajeado Shareholders' Agreement."

Investco acts as the leader of the Lajeado consortium and is responsible for contracting and acquiring all financing, services and equipment related to the operation and maintenance of the Lajeado hydroelectric plant.

Rede Lajeado sells all of the electricity to which we have a right from the Lajeado hydroelectric plant to Caiuá, CELTINS, CEMAT, Nacional, Bragantina, EDEVP and REDECOM under bilateral contracts, as described below:

Purchaser	Contract Date	Quantity (MWh/month)	Price (R\$/MWh)	Expiration Date
CEMAT	Nov. 1, 2001	100,305	86.27	Dec. 15, 2032
CELTINS	Nov. 1, 2001	16,718	86.27	Dec. 15, 2032
EDEVP	Nov. 1, 2001	16,718	86.27	Dec. 15, 2032
Caiuá	Dec. 1, 2001	16,718	86.27	Dec. 15, 2032
Bragantina	Nov. 1, 2001	16,718	86.27	Dec. 15, 2032
Nacional	Nov. 1, 2003	8,358	85.63	July 7, 2015
REDECOM	Feb. 1, 2003	5,197	36.37	Dec. 31, 2008

REDECOM pays lower prices for the electricity that it purchases from Rede Lajeado as a result of our strategy to ensure that REDECOM is competitive in the electricity trading market. Accordingly, Rede Lajeado and REDECOM entered into agreement under which the price at which REDECOM purchases electricity will increase gradually over a three-year period and will approximate the prices paid by our distributors by the end of third year.

To enable Investco's Shareholders to benefit from the Lajeado hydroelectric plant's operations in proportion to their share of the concession, Investco, as the owner of the generation assets of the Lajeado hydroelectric plant, and each of its shareholders, together representing 99% of the interests in the concession, executed lease agreements in July 2001 for each shareholder's respective portion of Investco's generating assets.

The lease agreement provides for monthly pre-determined rental payments, to be made by the shareholders to Investco, from the commencement of commercial operations of the first generation unit of the Lajeado hydroelectric plant. The rental price is subject to monthly discounts related to Investco's operational expenses and obligations under the construction financing agreements.

The obligations of Investco's shareholders under the lease agreements are secured by the pledge of: (1) their rights arising from their own portion of the concession; and (2) their credit rights related to the trading of energy generated by the Lajeado hydroelectric plant, except for:

- 30% of the energy corresponding to the accounts receivable represented by future monthly invoices, related to the sale of energy generated by the Lajeado hydroelectric plant; and
- 50% of the amount of the accounts receivable from the trading of excess energy generated by the Lajeado hydroelectric plant.

Guaporé Hydroelectric Plant

We own 61.7% of the total share capital and 100% of the voting share capital of Tangará, which owns 64% of the concession to operate the Guaporé hydroelectric plant, located on the Guaporé River in the municipalities of Pontes e Lacerda and Vale de São Domingos, Mato Grosso. Eletrobrás owns all of the remainder of the total share capital of Tangará.

The concession for the Guaporé hydroelectric plant, which is valid for a term of 30 years from its award on July 7, 1995 by the Brazilian government to the winning consortium in an auction. The concession agreement was executed on March 13, 2000, and the Guaporé hydroelectric plant became fully operational in June 2003 with three turbines, each with a generating capacity of 40.0 MW, for a total installed capacity of 120.0 MW.

Tangará sells all of the electricity to which it has a right from the Guaporé hydroelectric plant to CEMAT at a price of R\$117.22 per MWh pursuant to an electricity supply contract entered into on September 16, 2002 and expiring on June 6, 2025.

Our Trading and Other Businesses

REDECOM conducts electricity trading operations and is focused on serving “free customers” both inside and outside the concession areas of our electricity distribution companies. “Free customers” are certain industrial and other large customers that are permitted under current Brazilian regulations to select their electricity supplier. REDECOM’s principal place of business is located at Avenida Paulista, 2439 in the city of São Paulo, in the State of São Paulo. REDECOM was incorporated on November 13, 2000. As of March 28, 2007, REDECOM’s issued and outstanding capital stock consisted of 1,000 common shares. All of REDECOM’S shares are fully subscribed and paid-up. In 2006, REDECOM paid dividends in the total aggregate amount of R\$14.7 million. As of December 31, 2006, Rede had debt obligations to REDECOM in an aggregate total amount of R\$5.8 million. REDECOM recorded gross operating revenue of R\$163.4 million and net income of R\$14.7 million in 2006.

In addition to serving as a holding company for some of Rede’s subsidiaries, including Jurueña Energia S.A. and Tocantins Energia, Rede Power is authorized under its bylaws to offer services related to electricity distribution, including the study, construction, operation, maintenance and repair of instruments for the generation, transmission, transformation, distribution and final-usage of electricity, in addition to offering electricity-related consulting services. Rede Power’s principal place of business is located at Avenida Paulista, 2439 in the city of São Paulo, in the State of São Paulo. Rede Power was incorporated on January 10, 1995. As of March 28, 2007, Rede Power’s issued and outstanding capital stock consisted of 10,000 common shares. All of Rede Power’s shares are fully subscribed and paid-up. In 2006, Rede Power paid dividends in the total aggregate amount of R\$152.2 million. As of December 31, 2006, Rede had debt obligations to Rede Power in an aggregate total amount of R\$120.2 million. Rede Power recorded net income of R\$152.2 million in 2006.

REDESERV provides services related to the engineering design and construction of substations and other assets used in providing electricity services. REDESERV recorded gross operating revenue of R\$10.9 million and net income of R\$0.3 million in 2006.

Competition

The electricity distribution network operates as a legal monopoly, and services are generally compensated by the TUSD. Thus, customers located in the concession areas of our distribution companies, both captive and free, must use our distribution network to gain access to electricity, paying our distribution companies through the TUSD.

ANEEL Decree No. 5,597, of November 26, 2005, authorized free customers to cease paying TUSD charges to the local distributor if they build their own distribution network and connect it to the interconnected network. If any free customers elect to build their own distribution network, the gross operating revenue of the affected distribution company may be adversely affected. Other than that, the reduction of revenue derived from the migration of customers to the free market does not generally cause a reduction of profit margins for a distributor because compensation for the distributor’s investment comes from the TUSD, which continues to be paid to the distributor even after a potentially free customer switches to another electricity supplier.

ANEEL Decree 5,163 of July 30, 2004, requires that electricity trading activities by concessionaires, permit holders and authorized service providers with customers in the interconnected system and the isolated system be effected in “Contracting Environments” (*Ambientes de Contratação*) that may be “regulated” or “free.”

In the case of our generation companies, after the expiration of their existing contracts for the sale of electricity, the electricity that they continue to generate will be sold in the regulated contract market and the free market.

The regulated contract market is a segment of the market in which purchases and sales of electricity are effected between sales agents and distribution agents through public bids. In the regulated contract market, our generation companies compete by submitting proposals in auctions for new concessions. The winning proposal secures a concession agreement and a contract for the sale of electricity for a term of 15 to 30 years.

The free market is the segment of the market in which purchases and sales of electricity through bilateral contracts that are freely negotiated and prices and conditions are freely agreed upon by the parties. In this free environment, competition exists between generation concessionaires and permit-holders, traders and electricity importers.

Our principal competitors in the electricity generation segment are CEMIG, CESP, CHESF – Cia. Hidro Elétrica de São Francisco, Duke Energy International, Geração Parapanema S.A., Eletronorte, Furnas Centrais Elétricas S.A. and Tractebel Energia S.A.

Our principal competitors in the electricity trading segment are AES Infoenergy Ltda., CIEN – Companhia de Interconexão Energética S.A., CPFL Comercializadora Ltda., Delta Comercializadora de Energia Ltda., Elektro Comercializadora de Energia Ltda., Enertade Comercializadora de Energia S.A., N.C. Energia S.A. and Petrobrás Comercializadora de Energia Ltda.

Property, Plant and Equipment

Our principal properties consist of hydroelectric and thermoelectric plants, substations and distribution networks located in the states of Pará, Mato Grosso, Tocantins, Minas Gerais, São Paulo and Paraná. The net book value of our fixed assets totaled R\$4,520.0 million as of December 31, 2006. Generation facilities represented 4.6% of this net book value, and transmission and distribution assets represented 94.8%. In general, our facilities are adequate for our present needs and are appropriate for their intended purposes.

Some of our companies possess easements for our distribution lines, which are company assets that do not revert to the land owners upon expiration of our concessions. Our distribution lines occupy areas that we acquired by purchase or expropriation, or to which we hold easement rights subject to indemnity payments negotiated with the seller or, in some cases, as determined by judicial decision. Certain tracts of land through which our transmission lines run are shared with other electricity companies. The choice of certain tracts of land depend on technical criteria and is based on the negotiation held with the owner of the relevant property.

We generally enjoy no-cost easements over public property. However, we must make indemnity payments for easements over private property. Due to the public interest in the development of electricity services, we have not encountered significant legal difficulties in installing new medium- and low-voltage distribution lines historically.

According to Brazilian law, certain real property and facilities that we use to perform our obligations under our concessions may not be transferred, assigned, pledged, mortgaged, encumbered or sold to any of our creditors, or be subject to attachment, without prior approval by ANEEL.

Seasonality

Our electricity distribution companies do not face material seasonality because the economic characteristics of the industrial, residential and commercial markets they serve, whether captive markets or free customers, require a relatively uniform aggregate flow of electricity throughout the year, despite seasonality that occurs within the concession areas of each of our distribution companies. The following table sets forth the volume of sales of electricity by fiscal quarter in the periods indicated:

Three Months Ended	2006		2005		2004	
	(GWh sold)	(%)	(GWh sold)	(%)	(GWh sold)	(%)
March 31.....	2,816	21.6	2,762	23.9%	2,657	23.6%
June 30.....	3,131	24.0	2,906	25.1	2,793	24.8
September 30.....	3,350	25.7	2,956	25.6	2,872	25.6

December 31	3,739	28.7	2,943	25.4	2,921	26.0
Total.....	13,036	100.0%	11,567	100.0%	11,292	100.0%

Our generation assets are linked to the interconnected system and include reservoirs that were developed to normalize the outflow and operation of the electrical system as a whole through the assured electricity reallocation mechanism. The purpose of this mechanism is to facilitate mutual support in the generation of electricity by accredited power plants. Thus, under normal conditions, the interconnected system has mechanisms to mitigate the effects of climatic and hydrologic factors on the production of hydroelectric power. No system, however, can protect against all extraordinary events. See “Risk Factors—Risks Relating to Our Operations and the Brazilian Electric Power Industry—The effect of an electricity shortage and related electricity rationing, as in 2001 and 2002, may have a material adverse effect on our business and results of operations.”

Research and Development and Energy Efficiency

We present an annual research and development program to ANEEL, which, upon approval, establishes the dates for compliance with its targets.

Brazilian law requires electricity distribution companies to invest annually a minimum amount of 0.75% of their annual net operating revenue in research and development of the electricity sector and at least 0.25% in energy efficiency programs aimed at the final use of energy. Beginning in January 2006, generation companies, independent producers and transmission companies are required to invest at least 1.0% of their annual net operating revenue in research and development of the electricity sector, except for PCHs and companies that generate electricity exclusively from wind, solar and biomass sources.

The Brazilian government distributes the funds that it collects for research and development of the electricity sector as follows: 40% for distribution company projects; 40% for the Brazilian National Fund for Scientific and Technological Development (*Fundo Nacional de Desenvolvimento Científico e Tecnológico – FNDCT*); and 20% to the MME, in each case to fund studies and research regarding the expansion of the electricity system and the level of and the feasibility of exploiting hydroelectric potential. The Brazilian government will direct at least 30% of these funds to projects developed by research institutions located in the Northern, Northeastern and Midwestern regions of Brazil.

Over the last three years, our distribution companies invested an aggregate amount of R\$28.5 million in research and development and R\$23.7 million in energy efficiency, as described in the table below:

	Year Ended December 31,		
	2006	2005	2004
	(in millions of reais)		
Research and Development	16.1	5.6	6.8
Energy Efficiency	11.1	7.8	4.8
Total.....	27.2	13.4	11.6

Environment

In Brazil, the distribution and the transmission of electricity are subject to stringent environmental laws and regulations at the federal, state and municipal levels. The environmental laws establish several obligations, including environmental licensing requirements and compliance with certain environmental quality standards (in relation to gas emissions, solid waste management, effluents, noise and others). The non-compliance with those obligations may result in administrative and criminal sanctions being imposed, in addition to the obligation to repair the damage or to pay damages to third parties.

In 1998, the Brazilian government enacted a law on environmental crimes establishing administrative and criminal penalties for companies and individuals breaching this law, that include arrest for up to five years (applicable to individuals, including the management of companies), fines, rendering of community services, suspension of credit lines with official entities, suspension of operations, prohibition from entering into certain types of contracts with governmental entities, indemnification for environmental damages and forfeiture of tax benefits and incentives. Companies may also be held liable for environmental damages caused by third parties subcontracted by them to render services.

Each of our subsidiaries has environmental specialists that liaise with the executive officers of these companies regarding compliance with Brazilian federal, state and municipal environmental laws and regulations. Our environmental specialists assist us in maintaining and renewing our environmental licenses and in conducting environmental audits as well as in obtaining environmental licenses for new facilities.

At our headquarters in São Paulo, our environmental specialists and our technical specialists participate in the environmental committees of several electricity sector associations. These committees discuss the principal issues and topics that may affect the sector, analyze proposed legislation, regulations and other documents and meet from time to time with government officials in various ministries of mines, energy and the environment. We share this information with all of our subsidiaries. Accordingly, our subsidiaries remain informed and incorporate recent changes in environmental laws and regulations into their operating activities while minimizing the impact to their operations.

Our principal activities are the distribution and transmission of electricity. The electricity generation system includes hydroelectric plants, PCHs and thermoelectric plants that use diesel as fuel.

We have implemented several programs to prevent and control the impact of environmental damages, which are designed to limit the environmental risks that are inherent to our distribution and generation operations. Nevertheless, given the nature of our activities and that before the privatization of the electricity sector many of our companies had not adopted modern environmental practices, we have identified certain environmental problems that we are attempting to remediate. For example, based on preliminary assessments, we have identified potential soil and groundwater contamination with hydrocarbons (combustible oil and lubricants) in two CEMAT sites and one CELPA site. In addition, we have completed the assessment of 61 sites of CELPA, of which 28 were identified as being contaminated with these substances. Of those 28 contaminated sites, 10 have already been cleaned and two are currently being cleaned. The remaining 16 still require remediation. Remediation costs are expected to range from R\$400,000 to R\$500,000 per site.

Preserving the environment is a commitment that is part of our day-to-day activities, including through:

- complying with the environmental laws and regulations;
- decreasing our environmental impact;
- implementing environmental programs; and
- supporting research and sponsoring of events related to the environment.

We prepare technical reports, including a tree inventory, for operations involving deforestation, implement environmental programs and establish environmental controls for all of our facilities. We follow international environmental standards, including some operational policies of the World Bank (OP 4.01 related to environmental appraisals and OP 4.12 related to involuntary resettlement) and of the IDB (OP-102 related to disclosure of information and OP-710 related to involuntary resettlement, as well as policy directives related to social and environmental issues, the assessment of environmental impact and public participations in assessment of environmental impact).

Environmental Issues Relating to Generation

Our generation companies made significant efforts towards the responsible use of natural resources and the environmental awareness of their employees, suppliers and the community.

Hydroelectric Plants

Our installed hydroelectric plants do not compromise historic and national cultural heritage. We undertake environmental programs such as: Monitoring and Management of Water Quality; Social Communications Program; Environmental Education Program; Program for the Recovery of Damaged Areas; and compensatory and corrective measures.

Thermoelectric Plants

Our thermoelectric plants, operated by CEMAT and CELPA, are monitored through noise abatement programs involving the installation of natural barriers, erosive process controls, controls for oil separator boxes, toxic waste control and other measures oriented toward mitigating environmental impact.

Our generation companies have taken various actions, as part of their commitment to environmental preservation, including: (i) ensuring compliance with environmental laws; (ii) reducing environmental impacts; (iii) implementing environmental programs; and (iv) supporting research and sponsorship of environment-oriented events.

Environmental Licensing

Brazilian environmental law requires obtaining environmental licenses prior to the construction, installation, expansion, modification or operation of any facility or activity that uses natural resources, causes or has the potential to cause degradation or environmental pollution on Brazilian territory.

Environmental licenses are for a specific term and are issued by an administrative act, by which the proper environmental authority establishes the conditions, restrictions and means for environmental control to be observed by an applicant, whether an individual or legal entity. The environmental licensing process consists of three distinct stages, which correspond to the phase of the project, and is carried out by federal, state or municipal environment agencies, according to the requirements of the license sought:

- *Provisional License.* The provisional license is evidence of the environmental feasibility of a facility or activity and establishes the basic requirements and environmental conditions to be satisfied during subsequent implementation stages. If the facility or activity is deemed to have a high potential for environmental degradation or pollution, an environmental impact study and corresponding report on the impact to the environment must be developed and submitted for examination through public hearings in the affected communities by the relevant environmental competent agency.
- *Installation License.* The installation license authorizes the construction of a facility and establishes the control measures and other environmental conditions to be fulfilled before the operation phase can begin. Evidence of the implementation of the conditions under the provisional license, as well as the preparation of a basic environmental project and its relevant environmental programs, are pre requisites to the issuance of an installation license.
- *Operation License.* The operation license authorizes the operation of a facility or activity for the period established in the license, which may be renewed. The applicant must seek the license from the applicable environmental agency prior to completion of the construction, by providing proof of the implementation of the basic environmental project and compliance with the environmental conditions of the installation license.

New projects generally require the renewal of our operation licenses every one to four years, depending on the type of project. All of our required permits remain in effect, and we expect to renew these licenses prior to their respective expiration dates.

Environmental Programs Implemented in Distribution and Generation

Environment, Health and Safety Management System

We are developing an Environment, Health and Safety Management System, compatible with the basic principles of ISO 14001 (related to the environmental and social programs) and of OHSAS 18001 (related to the health and safety programs), including the following components: Environmental and Health Management Plan (*Plano de Gestão Ambiental e Social – ESMP*); Health and Safety Plan (*Plano de Gestão de Saúde e de Segurança – HSMP*); and Contingency Plan (*Plano de Contingência – CP*).

We estimate the implementation of this system will be completed in our subsidiaries in Mato Grosso and Pará in 2007, in our subsidiaries in Tocantins in 2008, and in our other subsidiaries in 2009.

Preliminary Assessment of Environmental, Health and Safety Liabilities

We have developed and are implementing a plan to assess, remedy, and/or monitor potential environmental, social and health liabilities associated with potentially contaminated surface areas and underground water, noise generation, atmospheric emissions, the handling and spillage of oil and hazardous material, and assessment of inadequate engineering projects and inadequate operating and maintenance situations.

We have implemented this plan in Mato Grosso and Pará and have assessed all of our diesel-fueled hydroelectric power plants, substations, warehouses and maintenance workshops located in these states. These actions are being

managed by the Environmental Advisory Council (*Assessoria de Meio Ambiente*) and supervised by the various superintendencies of our company to increase the levels of speed and efficiency in the measures to be implemented. We expect to implement this plan in the other locations in which our subsidiaries operate in 2007.

Residue Management

We are developing and implementing a program for the adequate management of residue generated by our company. An external advisory firm has carried out an inventory of residue generated by CEMAT and CELPA. We are internally conducting a similar inventory of residues generated by our other subsidiaries.

Reforestation of Permanent Preservation Areas

One of the activities our generation companies carried out is the reforestation of Permanent Preservation Areas in their reservoirs. In these areas, species of vegetation that grow naturally along the river banks and correspond to the environments found in the area before the creation of the respective reservoir. The species used in the revegetation process are selected from the environment of origin and the remaining areas of the region. Thus, native species are used depending upon the original environment of their occurrence.

Monitoring of Indigenous fish

Research of indigenous fish in our concession areas allows us to monitor changes in the composition of indigenous fish and predict the changes in fish stocks that will occur with the creation of reservoirs. These studies also provide information needed to mitigate environmental impacts and conserve fishing stocks.

Restoration and Improvement of the Road, Electrical, and Sanitation Infrastructure

The Road, Electrical, and Sanitation Infrastructure Restoration and Improvement Program implemented by the generators shows the method of restoring and improving infrastructure of the road system, the electrical power transmission system, and the sanitation system in the areas affected by the reservoirs.

Relocation of the Rural and Urban Population

One of the most important generation activities necessary for the construction of plants is the relocation of the populations residing in the areas flooded when reservoirs are created.

Our distributors and generators are in compliance with the environmental licensing for their projects, or are in the process of becoming compliant, and therefore no significant expenditures are projected.

Social Programs

In addition to distributing electricity in a safe, reliable and environmentally responsible way, we invest in the communities in which we operate. We are committed to the development of social projects that lead to significant improvements in the lives of the members of these communities, such as centers for artistic creation, cultural promotion and social development.

In the fiscal year ended December 31, 2006, we invested an aggregate amount of approximately R\$531.5 million in social programs, R\$523.1 million of which was in the Light for All Program, the Rural Lighting Program and the Universalization Program, and R\$8.4 million of which was in the development of other social programs, such as those listed below:

- *Watercolor Foundation.* We created the Watercolor Foundation (*Fundação Aquarela*) in 2001. The Watercolor Foundation provides full time education, speech therapy and psychological assistance, dental assistance, and a balanced diet to 340 children, between four and ten years of age, in Terra Firme, one of the poorest and most populated areas of Belém, Pará. The Watercolor Foundation has implemented the Citizenship in the Fields Project (*Projeto Cidadania no Campo*) that benefits 115 boys and girls of the rural area of the city of Bragança Paulista.
- *APAE Energy.* CELPA entered into a partnership agreement with the state of Pará and the Association of Parents and Friends of the Gifted (*Associação de Pais e Amigos dos Excepcionais*, or APAE), to increase

contributions to physically challenged children in the state through campaigns encouraging CELPA customers to donate to APAE through monthly donations via their electricity bills.

- *Children of Light Project.* Implemented in January 2003, the Children of Light Project (*Projeto Criança Luz*) benefits 1,900 needy Brazilian children from 14 schools around the city of Belém, providing volunteer medical and dental services and lectures on personal hygiene and environmental education.
- *Transparency Project.* The Transparency Project (*Projeto Transparência*) was created in July 2002 with the purpose of providing low-income customers with general guidance and information on the electrical services provided by CELPA.
- *Hand in Hand Project.* The Hand in Hand Project (*Projeto De Mãos Dadas*) was created in 2002. It gathers professionals from various departments and areas of CEMAT to perform volunteer activities that contribute to the promotion of social equality in the state of Mato Grosso.
- *Light Ticket Project.* This project consists of the exchange of aluminum cans and plastic bottles for bonuses to be discounted in the energy bill. It is a partnership among the Government the state of Mato Grosso, Aleris Latasa and the Modelo supermarket chain. This project provides and incentive to the recycling of materials and results in an increase in the revenue of the families involved.
- *Sewing Workshop Project.* We maintain a sewing workshop in the Ana Maria do Couto “May” Women’s Prison. Since January 2005, the uniforms used by the electricians of CEMAT are manufactured in the prison. Through work, the inmates gained values such as self-esteem, responsibility and the feeling of being useful in the society.
- *APAE Energy Project CELTINS.* CELTINS collects donations from customers through electricity bills and transfers the funds to the only rehabilitation center in Tocantins.
- *Nego D’água Project.* The objective of this project is to consolidate and promote the integrated management of the natural resources Lake Palmas, with an emphasis an on environmental education, in an attempt to increase the lake’s useful life and guarantee a better quality of life for the inhabitants of the region served by CELTINS.
- *Open Waters Project.* This project includes swimming competitions and stimulates economic activity by attracting national and international athletes. During the events we promote educational campaigns about the sustainable use of Lake Palmas, Porto Nacional Lake and Lake Araguaína, and stimulate participation in other water sports such as rowing, water-skiing and sailing, thus contributing to the improvement in the quality of life of the neighboring population.
- *Light Network Project.* The Light Network Project (*Projeto Rede Luz*) is a healthcare program that provides medical, dental and psychological assistance to 60 children housed at the São Judas Tadeu Charity Association in the city of Cuiabá.
- *Education in the Schools Project.* This project provides a course for approximately 47,000 educators about the correct and safe use of energy. Children from middle schools located in the concession areas of each of our distributors in the REDE SUL/SUDESTE operating unit attended lectures, and received folders and games about the conscious use of energy.
- *This Is How It’s Done Project.* In 2005, the This is How It’s Done Project (*Projeto É Assim Que Se Faz*) distributed over 13,000 educational toys designed to teach children about sustainable consumption as well as 20,000 folders describing the safe use of our services.
- *Commitment of All for Education.* In 2006, we adhered to the Commitment of All for Education (*Compromisso Todos Pela Educação*) program, a national awareness campaign for the inclusion of all children in quality public schools.

Insurance

Our insurance policies include coverage purchased based on the advice of insurance specialists that takes into account the nature and level of the risk in amounts that are deemed sufficient to cover any significant losses to our assets and liabilities. We believe our insurance coverage is within the insurance standards of our industry.

Our electricity distribution companies have insurance policies from reputable insurance companies to protect their assets against fire, lighting, explosions, electrical damage and minor engineering works in our various substations, buildings and facilities, with a claim limit of R\$20 million per event. We also have insurance policies for general civil liability protection against material damages and personal injury caused to third parties.

Our electricity distribution companies have no insurance coverage for the risk of interruption of commercial operations because we believe that the risk of major interruption does not justify the cost of the applicable insurance premiums. Risks involving flooding, earthquake, landslide, robbery and terrorist acts are not covered by our insurance policies.

Our generation plants have insurance coverage on their generators and turbines against fire, lighting, explosions, short circuits, electricity interruptions and equipment malfunctions, with a claim limit of R\$255 million for the Lajeado hydroelectric plant and R\$30 million for the Guaporé hydroelectric plant.

In 2006, we paid R\$10.1 million of premiums to insurance companies.

Intellectual Property

We protect our logos and trademarks. We have filed requests for registration of our “Rede” logo, together with the name of each of our electricity distribution companies, our trading company and our electricity generation companies, with the National Institute of Industrial Property (*Instituto Nacional de Propriedade Industrial*), or INPI, in October 2003 and are seeking to register these logos in five international classes: 36, 37, 39, 40 and 42. We believe that the failure to register these logos will not have an adverse impact on the respective businesses of our distribution, generation and trading subsidiaries.

We own the trademark “Caiuá,” which has been registered in international classes 36:70 and 37:35, and we filed requests in October 2003 for registration of our “Rede” logo together with the name “Caiuá” with INPI in the international classes 36, 37, 39, 40 and 42.

Denerge has filed requests for registration of the stand-alone “Rede” logo in international classes 35, 36, 37, 39, 40 and 42.

INPI has not yet approved several of our requests for registration of our logos and trademarks. Each registration approved by INPI will expire 10 years after the issuance of the respective registration certificate. Thereafter, each trademark may be renewed for an additional 10 year-period, subject to INPI’s approval. We must request that INPI renew each such registration within the 12 months prior to the expiration of the relevant 10-year period, and if we fail to do so, INPI may revoke our registration.

We do not have any patents or licenses registered with INPI, and we are not party to any technology transfer contracts related to our activities.

Employees

We had 5,572 full-time employees as of December 31, 2006.

The following table shows the number of our employees by category on the dates indicated.

	As of December 31,		
	2006	2005	2004
Executives	193	144	174
Finance	21	205	204

Administrative	503	466	208
Technical	1,453	1,418	1,717
Operational	1,986	1,638	1,316
Commercial	1,345	1,434	1,921
Others	71	36	280
Total	5,572	5,341	5,820

The following table shows the number of our employees, classified by type of operation, on the dates indicated.

	As of December 31,		
	2006	2005	2004
Distribution.....	1,986	1,638	1,396
Generation	71	36	262
Trading	1,345	1,434	1,921
Others	2,170	2,233	2,241
Total	5,572	5,341	5,820

As of December 31, 2006, 39.6% of these employees are located in Pará, 28.5% are located in Mato Grosso, 17.0% are located in São Paulo, 13.4% are located in Tocantins and 1.5% are located in Pará.

CELPA's concession area is extensive and includes areas that are difficult to reach, which causes its productivity to be lower than the productivity of our other distribution companies. CELPA is currently undergoing a restructuring of its operations (similar to a restructuring that occurred in CEMAT) to improve these measures.

As of December 31, 2006, our annual payroll expenses, including salaries, welfare charges and benefits for our employees, totaled R\$321.4 million, compared to R\$338.0 million in 2005 and R\$481.9 million in 2004.

We have not experienced any strikes during the last three years, other than a strike lasting for four days during November 2006 affecting our operations in Belém, Pará. We have a good relationship with the eight unions related to the generation and distribution units of which our employees are members. Two of the unions are affiliated with the generation sector and five are affiliated with the distribution sector. The STIU-PA is the most significant union among them, representing the electrical workers. We have collective bargaining agreements with each union, which are renegotiated on an annual basis, usually in April and November.

We invested approximately R\$3.5 million in 2006, R\$2.0 million in 2005 and R\$3.1 million in 2004 in education, training and professional development for our employees. More than 95% of our employees over the last three years engaged in professional and personal development activities, including internal and external training and participation in technical events.

Work safety remains one of our main priorities. We have invested in various programs focusing on accident prevention, risk control management and inspection and training, which have decreased the frequency and severity of work-related accidents. We provide annual safety training sessions to their employees that work in high-risk activities.

We provide a number of benefits to all of our employees, including medical and hospitalization insurance, dental insurance, reimbursement of day care and moving expenses, meal vouchers, life insurance, complementary medical insurance, study grants, pension premiums and private pension plans. These benefits are established through the execution of collective bargaining agreements with employee unions.

Each of our private pension plans is managed through REDEPREV, a non-profit foundation sponsored by various entities, that provides supplementary private pension plans and is independently administered. Based on the actuarial valuation of the pension plans conducted by independent actuaries on November 30, 2006, in accordance with the criteria prescribed by CVM Deliberation 371/2000, as of December 31, 2006, the actuarial liabilities amounted to R\$175.7 million for CELPA and R\$148.1 million for CEMAT. Provisions have been made to fund the actuarial liabilities that exceed the total assets of the plans in the amount of R\$1.5 million for CELPA and R\$0.4 million for CEMAT.

We do not have a stock option plan. In 2007, CEMAT, CELPA, CELTINS, EDEVP, Caiuá, Bragantina, and Força e Luz do Oeste granted a profit sharing plan to their employees.

Third-Party Service Providers

From time to time, we retain third parties to provide services related to cleaning, security, meter reading, billing, maintenance, interrupting and reconnecting electricity service, customer service and other administrative activities. We retained 4,346 third-party service providers in 2006, 3,690 in 2005 and 3,571 in 2004.

Legal Proceedings

Our companies are currently parties to several administrative and legal proceedings involving taxes, labor and civil liabilities. As of December 31, 2006, we had total provisions and judicial deposits in an aggregate amount of R\$55.2 million in respect of our pending legal proceedings.

The determination of the amounts provisioned is based on the amounts involved in the claims, in the opinion of outside and in-house counsel responsible for the claims, and we only provision amounts that represent probable losses. Our companies are involved in several civil and labor claims that we believe have a remote chance of loss. We did not include amounts relating to these claims in the total value of the contingencies recorded on our balance sheet (and listed in the table below) since we do not believe they represent material contingencies.

The following table shows the consolidated amounts of our provisions and the amounts deposited in court in respect of ongoing judicial and administrative proceedings as of December 31, 2006.

	As of December 31, 2006	
	Provisions	Judicial Deposits
	(in millions of reais)	
Labor.....	R\$14.1	R\$24.5
Civil (1).....	8.0	4.7
Tax	—	3.8
Total.....	R\$22.1	R\$33.0

(1) The amounts above do not include the indemnification amounts paid for the expropriation of real estate, since such amounts are recorded in our annual budget as investments, rather than expenses.

Labor Claims

As of December 31, 2006, we were parties to several labor claims, in respect of which we had established provisions in the amount of R\$14.1 million and made judicial deposits in the amount of R\$24.5 million. In general, the labor claims relate to overtime, vacation pay, the unemployment compensation fund (*Fundo de Garantia por Tempo de Serviço - FGTS*), the annual one-salary bonus, referred to as the 13th salary, hazardous occupation allowance, salary equalization, joint liability involving outsourced service companies, voluntary resignation plans and pension plans and other matters.

Civil Claims

As of December 31, 2006, we were party to several judicial proceedings involving civil claims, in respect of which we had established provisions in the amount of R\$8.0 million and made judicial deposits in the amount of R\$4.7 million. In general, these claims relate to indemnification due to occupational accidents or third-party accidents, suspension of electricity supply, measures relating to energy rationing, energy theft, indemnifications for damages to equipment, and bill payment disputes, among others.

Tax Claims

On September 15, 2006, Rede and its subsidiaries joined the PAEX, established by Provisional Measure No. 303/2006, which provides for the payment in installments of certain tax obligations. Prior to entering into the PAEX, Rede and its subsidiaries were contesting certain tax assessments of PIS, COFINS, IRJP, Social Contribution on Net Income, CPMF, FINE, PGFM and National Social Security Institute.

Rede determined that its chances of success in these challenges were possible in some cases and remote in other cases. As a result, Rede abandoned those administrative or legal proceedings in which its chances of success were possible or remote and entered into settlements with respect to these obligations under the PAEX. Under this settlement,

tax obligations arising prior to February 28, 2003 are payable in 130 monthly and successive installments and the outstanding balance of these tax obligations accrues interest at the TJLP rate, and tax obligations arising between March 1, 2003 and December 31, 2005 are payable in 120 monthly and successive installments and the outstanding balance of these tax obligations accrues interest at the SELIC rate. As of December 31, 2006, our total outstanding obligations under the PAEX settlement were R\$1,134.9 million.

As of December 31, 2006, we were party to several judicial and administrative proceedings involving tax matters, in respect of which we made judicial deposits in the amount of R\$3.8 million.

Administrative Proceeding (CEMAT)

The tax authorities of the state of Mato Grosso are analyzing an administrative appeal filed by CEMAT in respect of a tax deficiency notice claiming that CEMAT owes R\$237.6 million in taxes related to the offset of ICMS tax credits against other taxes by CEMAT. CEMAT believes that it will prevail in this administrative appeal, as the tax deficiency notice refers to tax credits CEMAT legally owned and correctly used for payment of tax. The tax credits refer to (i) acquisition of assets, (ii) self consumption of energy and (iii) diesel oil consumption for generation of energy by thermoelectric plants.

Social Security Contribution (INSS)

We are defendants in 17 claims brought by the National Institute of Social Security for social security contributions in the aggregate amount of R\$186.4 million. No final decision has been rendered to date. We estimate that the chances of loss are remote.

Other Administrative Proceedings

We are defendants in 11 administrative proceedings for undue offsetting of tax credits and obligations in an aggregate amount of R\$110.4 million. Although favorable decisions have been rendered, a final administrative decision is still pending. We estimate that the chances of loss are remote.

Environmental Claims

As of December 31, 2006, our affiliate Investco was party in several lawsuits and administrative proceedings relating to environmental matters. Of these claims, three involve civil actions for which Investco did not establish provisions, as it believes that it will prevail in these actions. The following are the material environmental proceedings in which Investco is involved:

- Investco is a defendant in three public civil actions commenced by the Brazilian federal attorney general's office, related to alleged defaults by Investco under the Environmental Basic Projects of reforestation of the area surrounding the reservoir of the power plant, expropriation of the areas of permanent preservation, in the total amount of R\$210.0 million.
- In the first lawsuit, commenced in December 2001, we petitioned for an injunction to prevent the closure of the Lajeado hydroelectric plant dam. The request was denied and the demand converted into an indemnification for losses and damages, which had to be measured by a judicial expert, as was the case in the other two lawsuits. As the theory of this lawsuit is the same as the theory of the other two lawsuits, the Brazilian federal attorney general requested that this action be dismissed, and the court granted its request on October 11, 2005.
- In the second lawsuit, the Brazilian federal attorney general requested a specific court order for compliance with all of the basic environmental plans of the plant currently in default. The judge asked IBAMA and the environmental agency of the state of Tocantins, or Naturatins, to provide an updated report regarding the environmental obligations required by the basic environmental plans. We believe that Investco may be able to settle this suit by entering into a Term of Adjustment (*Termo de Ajustamento de Conduta*) with the Brazilian federal attorney general. If Investco enters into a term of adjustment, then the only pending issue in the judicial proceeding will be the calculation of environmental damages, which will depend on a judicial investigation.

- The third lawsuit sought the immediate cleanup of the reservoir, the implementation of a usage plan for the areas surrounding the reservoir of the power plant and the acquisition of a permanent preservation area located 100 meters around the reservoir. Investco would pay a daily penalty for the breach of any of these obligations. The request for a preliminary injunction was denied, and Investco cannot be forced to acquire the permanent preservation area under the protective order. We believe that Investco may be able to settle this suit by entering into a Term of Adjustment with the Brazilian federal attorney general. We also believe that the probability of loss under these claims is remote due to the fact that Investco is in compliance with all the related project requirements.

Regulatory Claims

As of December 31, 2006, we were party to several administrative proceedings relating to regulatory matters. These proceedings represent a total liability of approximately R\$27.8 million, in respect of which we have not established a contingency provision as these administrative proceedings are in the preliminary stages and we believe that we will prevail. These regulatory claims generally consist of assessments by ANEEL (or similar state regulatory bodies) relating to the concessionaire's violation of applicable regulations. Infractions include the concessionaire's exceeding acceptable DEC or FEC indexes, and the execution of certain related party agreements without the prior consent of ANEEL, among others.

MANAGEMENT

Board of Directors

Our board of directors is responsible for establishing our long-term strategies and setting our general business policies and guidelines. According to our by-laws, our board of directors is composed of a minimum of seven and a maximum of nine members, who are elected for two-year terms by a majority of our shareholders present or represented by proxy at our annual shareholders meeting and re-election is permitted. The members of the board of directors must remain in office until their successors take office. As required by the Brazilian Corporation Law, our directors must hold at least one share of our capital stock.

Our board of directors meets when a meeting is called by any director. Meetings of our board of directors are convened upon the presence of a quorum, which requires a majority of the board members on first call and any number of board members on second call, and resolutions are passed by the majority vote of the members. The chairman of the board of directors has the deciding vote in the event of a tie.

The total compensation for the board of directors is set by our shareholders at our annual shareholders meeting and subsequently divided among the directors as determined by our board of directors.

The following table sets forth certain information with respect to the current members of our board of directors:

Name	Member Since	Position Held	Age
Jorge Queiroz de Moraes Junior.....	April 29, 1995	Chairman	62
Alberto José Rodrigues Alves	April 29, 1995	Member	63
Antonio da Cunha Braga	July 25, 2006	Member	59
Sebastião Bimbati	July 25, 2006	Member	73
Plácido Gonçalves Meirelles	April 29, 2000	Member	72
Omar Bittar	December 22, 2005	Member	76
João Carlos Hopp.....	December 22, 2005	Member	77
Martus Antonio Rodrigues Tavares	July 25, 2006	Member	51
Alvaro Luís Afonso Simões	July 25, 2006	Member	48

The term of office of each member of our board of directors will expire at the ordinary shareholders' meeting that approves the financial statements for the fiscal year ended December 31, 2007, except in the event of resignation, death or dismissal. The business address of each member of our board of directors is Avenida Paulista, No. 2439, 5th Floor, 01311-936, São Paulo, SP, Brazil.

The following is a summary of the business experience of our current directors.

Jorge Queiroz de Moraes Junior. Mr. Moraes has been the chairman of our board of directors since April 1995. He is also the President Executive Officer of Denerge and chairman of the board of directors of EEVP and several of our subsidiaries. He has been the president of the board of trustees of Rede Seguridade Foundation and an executive officer of JQMJ Participações S/A. Prior to 1999, Mr. Moraes was an assistant professor at the *Faculdade de Administração da Fundação Getúlio Vargas*. Mr. Moraes holds a bachelor's degree in naval engineering from *Escola Politécnica da Universidade de São Paulo*, a master's degree in business administration and a Ph.D. in finance and accounting from Michigan State University.

Alberto José Rodrigues Alves. Mr. Alves has been a member of our board of directors since April 1995. He is also the Vice President Executive Officer of Denerge and a member of the board of directors of Denerge, EEVP and several of our subsidiaries. Mr. Alves holds a bachelor's degree in electrical engineering with a specialization in electronics from *Escola de Engenharia de Mauá* and an MBA and a master's degree in finance and accounting from *Fundação Getúlio Vargas*.

Antonio da Cunha Braga. Mr. Braga has been a member of the board of directors since July 2006. He has been an employee of our company for 33 years, serving in several positions including as vice-president of operations. Mr. Braga holds a bachelor's degree in business management from *Universidade de Marília-UNIMAR* and a master's degree in general business administration from *Universidade de São Paulo*.

Sebastião Bimbati. Mr. Bimbati has been a member of the board of directors since July 2006. He is also a member of the board of directors of Denerge, EEVP and several of our subsidiaries. He was an employee of our company for 15

years prior to his retirement in March 1999, serving in several positions including as chief financial officer of our company. Mr. Bimbati holds a bachelor's degree in economics from Fundação Armando Álvares Penteado, São Paulo.

Plácido Gonçalves Meirelles. Mr. Meirelles has been a member of the board of directors since April 2000. He is also a member of the board of directors of EEVP and the managing director of Nacional and Bragantina. Mr. Meirelles has been the managing partner of Trois Elles Modas e Confecções. He served as a member of the consulting council of REDEPREV and as the director of Termocerâmica São Martinho.

Omar Bittar. Mr. Bittar has been a member of the board of directors since December 2005. He has been the director partner of Omar Bittar Assessoria e Consultoria Jurídica S/C. Mr. Bittar served as the vice-president of CODETEC – Companhia de Desenvolvimento Tecnológico de Campinas. Mr. Bittar holds a law degree from *Faculdade de Direito de Niterói*, Rio de Janeiro, and a bachelor's degree in business administration from *Fundação Getúlio Vargas*.

João Carlos Hopp. Mr. Hopp has been a member of the board of directors since December 2005. He has been a member of the board of directors of CEMAT and a member of the advisory council of Açucareira Corona S/A. Mr. Hopp was a professor at the *Faculdade de Administração da Fundação Getúlio Vargas*. Mr. Hopp holds a bachelor's degree in economics from *Faculdade de Economia de São Paulo da Fundação Álvares Penteado*.

Martus Antonio Rodrigues Tavares. Mr. Tavares has been a member of the board of directors since July 2006. He has been executive vice president of the Industrial Federation of the state of São Paulo. Mr. Tavares served as Secretary of the Economy and Planning of the state of São Paulo in 2005 and as executive director for Brazil and Suriname of the IDB from 2002 through 2004. Mr. Tavares holds a post-graduate degree in economics from the *Universidade de São Paulo*.

Álvaro Afonso Luís Simões. Mr. Simões has been a member of the board of directors since July 2006. He was the chief executive officer of Even Construtora e Incorporadora S.A. Mr. Simões served as managing director of Banco Santander Brasil S.A. from 2001 through 2004. Previously, Mr. Simões he was managing director of Citibank, Unibanco and Crédit Agricole Indosuez. Mr. Simões holds a bachelor's degree in mechanical engineering, with a specialization in chemical engineering, from the *Escola Politécnica da Universidade de São Paulo* and a bachelor's degree in economics from the *Fundação Getúlio Vargas*.

Board of Executive Officers

Our board of executive officers is composed of a maximum of six members who may or may not be shareholders. The executive officers are responsible for the day-to-day management of our business and implementing the resolutions of our board of directors. Our executive officers' individual responsibilities are established under our by-laws and by our board of directors. Our executive officers are elected for a term of two years and re-election is permitted. Executive officers must remain in office until their successors take office.

Any executive officer may call meetings of our board of executive officers whenever company business so requires. Meetings of our board of directors are convened upon the presence of a quorum, which requires a majority of the executive officers on first call and any number of executive officers on second call, and resolutions are passed by the majority vote of the executive officers.

The following table lists the current members of our board of executive officers:

Name	Member Since	Term Expires	Position Held	Age
Evandro César Camillo Coura ...	April 2000	April 2007	Chief Executive and Investor Relations Officer	48
Carmem Campos Pereira.....	May 1998	April 2007	Administrative and Financial Officer	38
José Alberto Alves Cunha	March 2004	April 2007	Distribution Officer	61
José Eduardo Constanzo.....	March 2004	April 2007	Production and Transmission Officer	61
Valdir Jonas Wolf	May 2005	April 2007	Managing Director	46

The following is a summary of the business experience of our current executive officers. The business address of each member of our board of executive officers is Avenida Paulista, No. 2439, 5th Floor, 01311-936, São Paulo, SP, Brazil.

Evandro César Camillo Coura. Mr. Coura has been our managing director and chief executive and investor relations officer since April 2000. He also serves as managing director and investor relations director of CELPA and

CEMAT, and as managing director of CELTINS. Mr. Coura holds a bachelor's degree in electrical engineering from *Instituto Militar de Engenharia* and a master's degree in business administration from *Universidade Federal do Rio de Janeiro – COPPEAD*.

Carmem Campos Pereira. Mrs. Pereira has been a member of our board of executive officers since May 1998. She is the chief financial officer of EEVP and some of our subsidiaries, including QMRA, Investco and Nacional, and the financial director of Aquarela Foundation. Mrs. Pereira holds a law degree from *Faculdades Metropolitanas Unidas*, a bachelor's degree in business administration from *Universidade São Judas Tadeu* and a master's degree in financial management from *Universidade de São Paulo*.

José Alberto Alves Cunha. Mr. Cunha has been a member of the board of executive officers since March 2004. He is the vice-president and operations director of CELPA. Mr. Cunha served as the managing director of CELTINS and the distribution director of our company. Mr. Cunha holds a bachelor's degree in electrical engineering from *Faculdade de Engenharia de Bauru*.

José Eduardo Costanzo. Mr. Costanzo has been a member of the board of executive officers since March 2004. He was the responsible for coordinating the development of the Rosal, Guaporé and Lajeado hydroelectric plants. Mr. Costanzo holds a bachelor's degree in civil engineering from *Escola de Engenharia de São Carlos – Universidade de São Paulo*.

Valdir Jonas Wolf. Mr. Wolf has been a member of the board of executive officers since May 2005. He has been a member of CEMAT's board of executive officers since 1997. Mr. Wolf has worked in the electrical department of our company since 1979. Mr. Wolf holds a bachelor's degree in accounting from *Faculdade de Filosofia, Ciências e Línguas de Guarapuava*.

Fiscal Council

Under the Brazilian Corporation Law, the fiscal council (*Conselho Fiscal*) is a corporate body independent from the management of the company and its external auditors. The primary responsibility of the fiscal council is to review management's activities and the company's financial statements and to report its findings to the shareholders. The fiscal council is not equivalent to an audit committee as contemplated by the U.S. Securities Exchange Act of 1934.

The fiscal council is a permanent body and must consist of no less than three and no more than five members, with an equal number of alternates. The members of the fiscal council remain in office until the ordinary shareholders' meeting of the year following their election. Shareholders holding at least 10% of a company's voting shares have the right to elect one member to the fiscal council.

Generally, the fiscal council cannot include members of our board of directors or board of executive officers, or employees of, any company that we control or is under common control with spouses or relatives of the company's management. In addition, each member of the fiscal council is entitled to receive as compensation an amount equal to at least 10% of the average amount paid to each executive officer.

The following table lists the current members of our fiscal council. The term of all of our members of our fiscal council expires on the date that our annual shareholders' meeting is held in 2007, and each of them was elected on April 18, 2006.

Name	Position	Age
Carlos Souza Barros de Carvalho	Member	77
Osmar José Vicchiatti	Member	65
Annibal Ribeiro do Valle Filho	Member	55
Antonio Carlos de Paula	Alternate	52
Wilson Carlos Oliveira	Alternate	59
Kleber Cimini Lage	Alternate	63

The following is a summary of the business experience of the current members of our fiscal council.

Carlos Souza Barros de Carvalho. Mr. Carvalho has been a member of our fiscal council since April 2006. He is also a member of the fiscal council of CELPA, CEMAT and CELTINS. He was a manager of CNBO – Produtora de Energia Elétrica Ltda. from 1997 to 1998. Mr. Carvalho holds a bachelor's degree in civil engineering from *Escola Politécnica da Universidade de São Paulo*.

Osmar José Vicchiatti. Mr. Vicchiatti has been a member of our fiscal council since April 2006. He is also a member of the deliberative council of REDEPREV. He was the managing director of Bragantina and some of our other subsidiaries from 1980 to 2003. Mr. Vicchiatti holds a bachelor's degree in business administration and economics from *Universidade São Paulo (USP)*.

Annibal Ribeiro do Valle Filho. Mr. Valle has been a member of our fiscal council since April 2000. He was the managing director of planning, budget and control of Badra S.A. from 1982 to 1995 and the technical manager of Beter S.A. from 1975 to 1981. Mr. Valle was a professor at the *Escola de Engenharia de Alfenas*, Minas Gerais. Mr. Valle holds a bachelor's degree in civil engineering from *Escola de Engenharia da Universidade Federal de Minas Gerais – UFMG*, and an MBA from *Fundação Getúlio Vargas*.

Antonio Carlos de Paula. Mr. Paula has been an alternate member of our fiscal council since April 2000. He has been the project manager of Ericsson Telecomunicações. Mr. Paula holds a bachelor's degree in electrical engineering from *Universidade de Mogi das Cruzes* and a post-graduate degree in accounting and finance from *Fundação Getúlio Vargas*.

Wilson Carlos de Oliveira. Mr. Oliveira has been an alternate member of our fiscal council since April 2006. He has been a partner of the independent accounting firm Boucinhas & Campos Auditores Independentes since 1989. Mr. Oliveira holds a bachelor's degree in accounting from *Universidade de São Paulo*.

Kleber Cimini Lage. Mr. Lage has been an alternate member of our fiscal council since April 2006. He is the director of planning of CELTINS and was an executive officer of Investco from 1998 to 2003. He was a professor at the *Escola de Engenharia da Universidade Federal de Goiás*. He served as the director of Águas e Energia Elétrica Goiás from 1975 to 1978 and was the assistant to the board of executive officers of Eletronorte in 1983. Mr. Lage holds a bachelor's degree in electrical engineering from *Universidade Federal de Goiás*.

Compensation of Executive Officers

In 2006, the total amount of compensation paid to the members of our board of directors and our executive officers, including fringe benefits, was approximately R\$20.7 million. For 2007, we expect that the total amount of compensation to be paid to our executive officers, including fringe benefits, will be approximately R\$20.7 million.

Stock Option Plans

We do not have stock option plans for members of our management.

Agreements with Executive Officers and Directors

We currently have no agreements with our executive officers or directors.

PRINCIPAL SHAREHOLDERS

Principal Shareholders

As of March 28, 2007, Rede's authorized capital stock consisted of 479,266,570 shares, without par value, with aggregate equity value of R\$538,051,828.80 and Rede had 221,157,990 issued and outstanding common shares and 63,108,580 issued and outstanding preferred shares. All of the shares are fully subscribed and paid-up. Each common share is entitled to vote at the general shareholders meeting. Preferred shares are not convertible into common shares and are not entitled to any vote at the general shareholders meeting. However, each preferred share is entitled to: (i) receive non-cumulative dividends in an amount per share of not less than 110% of the dividends per share distributed to holders of common shares; (ii) priority capital reimbursement without premium, in the event of Rede's liquidation, and, following reimbursement of common shares, equal proportionate amounts with such common shares of any distribution of excess shareholders' equity; and (iii) equal interest with common shares of any distribution of profits, bonuses or other benefits (other than those described in (i) or (ii) above), including those yielded by share capital increases due to reserve capitalization.

The following table sets forth information concerning the ownership of Rede's common and preferred shares as of March 28, 2007 by each person whom we know to be the owner of more than 5.0% of our common and preferred shares and by all of our directors and executive officers as a group. Our principal shareholders have the same voting rights with respect to each class of our shares that they own as other holders of shares of that class.

Shareholders	Common Shares	(%)	Preferred Shares	(%)	Total	(%)
EEVP	174,772,375	79.03	65,000	0.1	174,837,375	61.50
Denerge	43,614,095	19.72	13,282,220	21.05	56,896,315	20.02
BNDESPAR	—	—	45,993,425	72.88	45,993,425	16.18
Officers, directors and fiscal council members as a group ...	41,530	*	775	*	42,305	*
Free float	2,729,990	1.23	3,767,160	5.97	6,497,150	2.29
Total	221,157,990	100.00	63,108,580	100.00	284,266,570	100.00

* Less than 1%.

On February 4, 1999, EEVP and BNDESPAR executed a purchase and sale commitment agreement of preferred shares, which was amended on March 1, 1999, under which BNDESPAR granted to EEVP an option to purchase 63,108,580 preferred shares which were, at that time, subscribed by BNDESPAR in exchange for annual payments by EEVP in an amount equivalent to 3% of the value of the shares subject to this option (determined in accordance with the provisions of this agreement). The number of shares subject to this option may be reduced by 40% under certain circumstances described in the purchase and sale commitment agreement. This option expires in October 2009.

On February 4, 1999, EEVP and BNDESPAR executed a put option agreement under which EEVP granted BNDESPAR a put option covering 9,198,686 preferred shares. The number of shares subject to this option may be reduced by 40% under certain circumstances described in the put option agreement. Under the put option agreement, BNDESPAR can only exercise this option for up to 20% of the preferred shares subject to this option. This option expires in February 2010.

Shareholders' Agreements

Rede has entered into a shareholders agreement with BNDESPAR and EEVP, its controlling shareholders with respect to the management of our company. In addition, some of Rede's principal subsidiaries have entered into shareholders agreements with us and their other principal shareholders. These shareholders agreements are described below.

Rede Shareholders' Agreement

On February 4, 1999, EEVP and BNDESPAR entered into a shareholders' agreement, which we refer to as the Rede Shareholders' Agreement. Under the Rede Shareholders' Agreement, EEVP agreed to maintain ownership of at least 51% of our voting capital stock and total capital stock. Any proposed transfer of any of our capital stock by EEVP, other than to our direct and indirect subsidiaries, requires that BNDESPAR consent to such transfer or be permitted to exercise tag along rights.

The Rede Shareholders' Agreement provides that BNDESPAR may appoint one member of our board of directors and requires that BNDESPAR consent be obtained for us to take certain actions, including:

- issuing preferred shares or increasing the number of shares of any existing class of capital stock in a manner that would change the proportion between common shares and preferred shares, unless permitted by our bylaws;
- changing the rights, preferences, redemption options or amortization schedule of one or more classes of preferred shares;
- reducing the mandatory dividend;
- issuing convertible debentures, subscription bonuses and founder shares (*partes beneficiárias*, which entitle their holder to receive a specified percentage of the issuer's annual net income);
- acquiring, spinning-off, merging or liquidating Rede; or
- acquiring control of or association with any other company that is not in the electricity sector.

If we or EEVP default on any of our obligations under the Rede Shareholders' Agreement and that default is not cured within 30 days, BNDESPAR has the option to sell all of its shares to EEVP, at a purchase price equal to (1) the average closing price of the preferred shares during the last 30 trading sessions, (2) the equity value, (3) the issue price, plus the variation of the TJLP plus interest at the rate of 6.5% per annum, or (4) the issue price, plus the IGP-M variation plus interest at the rate of 12.0% per annum.

CELPA Shareholders' Agreement

As of December 31, 2006, QMRA owned 51.3% of the total share capital of CELPA, including 55.0% of its voting share capital, and Eletrobrás owned 34.2% of the total share capital of CELPA, including 34.8% of its voting share capital.

On July 17, 1998, QMRA and Eletrobrás entered into a shareholders' agreement, which we refer to as the CELPA Shareholders' Agreement. The CELPA Shareholders' Agreement requires that QMRA and Eletrobrás meet prior to shareholders' meetings so that they can reach agreement regarding how they will vote their CELPA shares. QMRA is entitled to appoint five or seven members of CELPA's board of directors (depending on whether the board of directors of CELPA is comprised of seven or nine members), and Eletrobrás is entitled to appoint the remaining two directors. However, if the percentage of CELPA's total share capital owned by Eletrobrás falls below: (1) 20.0%, then it will only be entitled to appoint one member of CELPA's board of directors; or (2) 10.0%, then it will not be entitled to appoint any members of CELPA's board of directors and the provisions of the CELPA Shareholders' Agreement shall be suspended, except with respect to Eletrobrás's right to require QMRA to buy its CELPA shares. The agreement requires a supermajority vote of the shareholders for the approval of related party transactions, the execution of loans and financing agreements, and grants of guarantees or security interests over assets of CELPA representing more than 10% of CELPA's assets.

Under the CELPA Shareholders' Agreement, QMRA is entitled to appoint three of the five members of CELPA's fiscal council. Eletrobrás is entitled to appoint the remaining two members of CELPA's fiscal council. Eletrobrás has an option to require QMRA to buy its CELPA shares under certain circumstances. Eletrobrás is required to notify QMRA prior to exercising its option and to make a public offering of any CELPA shares that it intends to sell. The CELPA Shareholders' Agreement terminates on July 17, 2011 or upon the sale by Eletrobrás of its interest in CELPA, whichever occurs first.

The CELPA Shareholders' Agreement requires CELPA to maintain a five-year business plan, which must include detailed financial projections for the following five years, business strategies (as well as any plan to expand its operations), potential business opportunities, estimated investments with its own or third-party resources, and the expected return on equity and profit margins. The business plan must be approved by the board of executive officers.

Under the CELPA Shareholders' Agreement, CELPA is required to distribute as dividends, in addition to the mandatory dividend provided for under Brazilian Corporation Law and in its by-laws, any amount that it is not required to maintain its operating capacity or to pay any obligation incurred by CELPA that was provided for in its business plan, annual budget or concession agreement.

QMRA Shareholders' Agreement

As of December 31, 2006, Rede owned 65.0% of the total share capital and voting share capital of QMRA, and Inepar Energia S.A., or Inepar Energia, owned 35.0% of the total share capital and voting share capital of QMRA.

On October 1, 1999, Rede and Inepar Energia entered into a shareholders' agreement, which we refer to as the QMRA Shareholders' Agreement. The QMRA Shareholders' Agreement requires that Rede and Inepar Energia meet prior to shareholders' meetings or board of directors' meetings of QMRA and CELPA so that we can reach agreement regarding how we will vote at CELPA's shareholders' meetings. The QMRA Shareholders' Agreement is valid during the validity of the concession agreement entered into by CELPA.

Rede is entitled to appoint four of the members of CELPA's board of directors that QMRA is allowed to appoint under the CELPA Shareholders' Agreement, and Inepar Energia is entitled to appoint one member of CELPA's board of directors. In addition, Rede and Inepar Energia have agreed to cause QMRA to vote in favor of the two members of CELPA's board of directors appointed by Eletrobrás. The remaining member of CELPA's board of directors is selected by CELPA's employees. The agreement requires a supermajority vote of the QMRA shareholders for the approval of related party transactions, the execution of loans and financing agreements, and grants of guarantees or security interests over assets of QMRA or CELPA.

CEMAT Shareholders' Agreements

As of December 31, 2006, Rede owned 37.5% of the total share capital of CEMAT, including 57.5% of its voting share capital, Inepar Industria e Construção, or Inepar, owned 18.1% of the total share capital of CEMAT, including 29.6% of its voting share capital, and Eletrobrás owned 41.4% of the total share capital of CEMAT, including 5.8% of its voting share capital.

On November 26, 1997, EEVP and Inepar executed an agreement to establish the main principles governing their rights and obligations as shareholders of CEMAT. Among other things, the agreement grants tag along rights to Inepar in relation to its interest in CEMAT.

On November 27, 2000, Rede, Inepar and Eletrobrás entered into a shareholders' agreement, which we refer to as the CEMAT Shareholders' Agreement. The CEMAT Shareholders' Agreement requires that Rede, Inepar and Eletrobrás meet prior to shareholders' meetings so that they can reach agreement regarding how they will vote their CEMAT shares. Rede and Inepar together are entitled to appoint all but one of the members of CEMAT's board of directors, and Eletrobrás is entitled to appoint the remaining director. However, if the percentage of CEMAT's total share capital owned by Eletrobrás falls below 5.0%, then it will not be entitled to appoint any members of CEMAT's board of directors and the CEMAT Shareholders' Agreement shall be terminated, except that the put option requiring our company to purchase all of Eletrobrás' shares in CEMAT will remain in effect.

Under the CEMAT Shareholders' Agreement, Rede and Inepar together are entitled to appoint four of the five members of CEMAT's fiscal council. Eletrobrás is entitled to appoint the remaining member of CEMAT's fiscal council. Eletrobrás has an option to require Rede and Inepar to buy its CEMAT shares under certain circumstances. Eletrobrás is required to notify CEMAT prior to exercising its option and to make a public offering of any CEMAT shares that it intends to sell. The CEMAT Shareholders' Agreement terminates on November 27, 2013.

The CEMAT Shareholders' Agreement requires CEMAT to maintain a five-year business plan, which shall include detailed financial projections for the following five years, business strategies (as well as any plan to expand its operations), potential business opportunities, estimated investments with its own or third-party resources, and the expected return on equity and profit margins.

Under CEMAT Shareholders' Agreement, CEMAT is required to distribute as dividends, in addition to the mandatory dividend provided for under Brazilian Corporation Law and in its by-laws, any amount that it is not required to maintain its operating capacity or to pay any obligation incurred by CELPA that was provided for in the business plan, annual budget or concession agreement.

Investco Agreements

As of December 31, 2006, Rede Lajeado owned 20.2% of the total share capital of Investco, including 42.4% of its voting share capital; EDP Lajeado Energia S.A. owned 23.0% of the total share capital, including 27.6% of the voting share capital, of Investco; CEB Lajeado S.A. owned 16.8% of the total share capital, including 20.0% of the voting share

capital, of Investco; and Paulista Lajeado Energia S.A. owned 5.8% of the total share capital, including 7.0% of the voting share capital, of Investco.

On November 17, 1997, Investco's shareholders entered into a shareholders' agreement, which we refer to as the Investco Shareholders' Agreement. This agreement provides, among other customary provisions, that (1) Investco's shareholders will have rights to the energy produced by the Lajeado hydroelectric plant proportional to their ownership of Investco's voting capital; and (2) each of Investco's shareholders must provide a capital contribution, in proportion to its ownership of Investco's voting share capital. If any shareholder fails to provide its respective contribution, including Rede Lajeado, the others may make contributions in accordance with their proportional ownership in the voting stock of Investco.

Investco's shareholders have entered into an agreement with Eletrobrás, dated July 31, 1998, which we refer to as the Eletrobrás Agreement, under which Investco was required to redeem all class "R" preferred shares held by Eletrobrás. Under the Eletrobrás Agreement, Investco was required to commence redeeming at least 20% of the class "R" preferred shares each year, with the first redemption occurring within the two-year period after the Lajeado hydroelectric plant commenced commercial operations. However, due to a lack of capital reserves, Investco was unable to redeem the required number of shares.

On December 29, 2005, Investco and its shareholders entered into an agreement under which Rede Lajeado agreed to acquire from Eletrobrás a number of the class "R" preferred shares proportional to Rede Lajeado's ownership of Investco's voting capital in exchange for 53,210,337 of Rede Lajeado's preferred shares and 10,000 founder shares of Rede Lajeado. As Rede Lajeado did not receive any cash in consideration of the issuance of its preferred shares and founder shares, it recorded its receipt of Investco's class "R" shares as an advance for a future capital increase. As a consequence of these transactions, the Eletrobrás Agreement has been terminated and the provisions of the Investco Shareholders' Agreement relating to the redemption of Eletrobrás's Investco shares are null and void. For a description of the effect that this transaction had on our results of operations, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations—Year Ended December 31, 2006 Compared to Year Ended December 31, 2005."

On September 12, 2000, Investco, its shareholders, their controlling shareholders and Energias de Portugal entered into an investment agreement regarding, among other things:

- the capitalization necessary to implement the Lajeado hydroelectric plant;
- the guarantees rendered in respect of certain financings obtained by Investco to implement the Lajeado hydroelectric plant, including the BNDES and BASA I financing agreements;
- the capitalization of Investco by its shareholders to redeem the preferred shares held by Eletrobrás; and
- the lease agreements executed by Investco.

Under the terms of the investment agreement, Investco's shareholders, which include Rede Lajeado, agree to provide capital contributions to Investco in proportion to their ownership of the voting share capital of Investco. In addition, notwithstanding the guarantees rendered individually by certain shareholders of Investco, their controlling shareholders and affiliates, each of Investco's shareholders must provide guarantees for Investco's financings in proportion to its ownership of the voting share capital of Investco. The failure of any of Investco's shareholders to comply with these obligations will result in a proportional decrease in its ownership of the voting share capital of Investco and, consequently, in its share of the energy generated by the Lajeado hydroelectric plant.

Therefore, if Rede Lajeado becomes liable for the debt that it has guaranteed, Investco's other shareholders must contribute their respective parts of the debt, in proportion to their ownership of the voting share capital of Investco. The failure of any shareholder of Investco to comply with this obligation, or the obligations pertaining to the capital contributions discussed above, will result in a proportional decrease in its ownership of the voting share capital of Investco and, consequently, in its share of the energy generated by the Lajeado hydroelectric plant.

Rede Lajeado Shareholders' Agreement

As of December 31, 2006, Rede directly and indirectly owned 53.6% of the total share capital, including 93.6% of the voting share capital, of Rede Lajeado, and Eletrobrás owned 40.1% of the total share capital of Rede Lajeado.

On February 15, 2006, Rede, Rede Power, Tocantins Energia S.A. and Eletrobrás entered into a shareholders' agreement, which we refer to as the Rede Lajeado Shareholders' Agreement. The purpose of this agreement is to

- define how voting rights will be exercised in shareholders meetings of Rede Lajeado in which members of its board of directors will be appointed;
- define Eletrobrás's rights under specified circumstances;
- require the controlling shareholders to protect the rights of preferred shareholders and of the founder shares owned by Eletrobrás;
- grant the controlling shareholders a right of first refusal in connection with the transfer of preferred shares and founder shares; and
- establish a dividend policy for Rede Lajeado.

As the controlling shareholders, Rede, Rede Power and Tocantins Energia S.A. collectively have the right to appoint two members of Rede Lajeado's board of directors and Eletrobrás has the right to appoint the remaining member. However, if Eletrobrás ceases to own a majority of Rede Lajeado's preferred shares, Rede, Rede Power, Tocantins Energia S.A. and Eletrobrás have agreed to amend the bylaws of Rede Lajeado to increase the size of its board of directors to five. Following this amendment, Rede, Rede Power and Tocantins Energia S.A. collectively will have the right to appoint one of the additional members and Eletrobrás will have the right to appoint the other.

The Rede Lajeado Shareholders' Agreement also provides Eletrobrás with certain veto rights, including in respect of a change in the corporate purpose of Rede Lajeado or Investco, changes to the rights of the holders of preferred shares and the founder shares of Rede Lajeado, the establishment or reversal of provisions for contingencies and the granting of guarantees or security interests in the assets of Rede Lajeado.

Rede Lajeado's shareholders agreed to cause Rede Lajeado to distribute in the form of dividends or interest on shareholders equity 100% of Rede Lajeado's adjusted net profit that is available for distribution, with exception of funds used to create an investment reserve prior to 2011.

As long as Eletrobrás maintains its percentage ownership of Rede Lajeado's total share capital, it will receive 49.7% of Rede Lajeado's adjusted annual net profit, other than the investment reserve, in the form of dividends, founder shares and reserves established for environmental contingencies related to the implementation of the Lajeado hydroelectric plant.

The Rede Lajeado Shareholders' Agreement will remain in effect so long as Eletrobrás is a shareholder of Rede Lajeado.

Tangará Shareholders' Agreement

As of December 31, 2006, Rede owned 61.7% of the total share capital of Tangará, including 100% of its voting share capital, and Eletrobrás owned 29.9% of the total share capital of Tangará.

On July 24, 2001, Rede and Eletrobrás entered into a shareholders' agreement, which we refer to as the Tangará Shareholders' Agreement. The purpose of this agreement is to:

- define the rights of the redeemable preferred shares owned by Eletrobrás and the conditions to redemption;
- grant a right of first refusal in connection with the transfer of shares;
- grant a call option in respect of the redeemable preferred shares; and
- authorize the granting of a guarantee by Tangará and Rede in respect of Eletrobrás's right to redeem the preferred shares.

Under the Tangará Shareholders' Agreement, Tangará was required to commence redeeming Eletrobrás's preferred shares within the two-year period after the Guaporé hydroelectric plant commenced commercial operations and to

conclude the redemption within an eight-year period. Accordingly, Tangará should redeem 1/32 of the preferred shares originally held by Eletrobrás each quarter. Tangará also may redeem all or substantially all of Eletrobrás's preferred shares at any time.

As of December 31, 2006, Tangará had redeemed approximately 21.9% of its preferred shares held by Eletrobrás, and as of that date, Eletrobrás continued to hold Tangará preferred shares in an aggregate amount of R\$66.0 million. In addition, on December 28, 2006, Tangará paid an additional redemption installment of R\$2.7 million with respect to an additional 3.2% of its preferred shares held by Eletrobrás, but the settlement of this redemption had not been completed as of December 31, 2006.

Rede fully guarantees the obligations of Tangará to redeem the preferred shares held by Eletrobrás. If Tangará defaults in its obligations to redeem the preferred shares, Eletrobrás has the right to request that Rede acquire all of the Tangará preferred shares that it owns within 60 days.

The Tangará Shareholders' Agreement also provides that Eletrobrás may appoint one member of Tangará's board of directors (and his or her respective alternate). The Tangará Shareholders' Agreement will remain in effect until the earlier of the date upon which the obligation contemplated in this agreement are fulfilled or Eletrobrás ceases to be a shareholder.

RELATED PARTY TRANSACTIONS

The following summarizes the material transactions that we have engaged in with our principal shareholders and their affiliates since January 1, 2004.

The significant transactions that we have undertaken with our principal shareholders relate to our corporate reorganization, as described in “History and Corporate Reorganization,” financing transactions with BNDES, commercial transactions with certain of our subsidiaries before our acquisition of these subsidiaries and the Rede Shareholders’ Agreement.

Under the Brazilian Corporation Law, each of our directors, their alternates and our executive officers cannot vote on any matter in which they have a conflict of interest and such transactions can only be approved on reasonable and fair terms and conditions that are no more favorable than the terms and conditions prevailing in the market or offered by third parties.

Transactions Relating to Our Corporate Reorganization

In March 2006:

- Rede assumed debt of EEVP to BNDES, CNEE and certain of Rede’s subsidiaries in an aggregate amount of R\$160.6 million in exchange for the release by EEVP of debt and accounts payable of Rede and one of its subsidiaries to EEVP in the aggregate amount of R\$19.9 million. The excess of the balance of the debt assumed by Rede over the balance of the debt and accounts payable releases by EEVP is recorded as a long-term receivable of Rede. This receivable bears interest at 100% of the CDI rate plus 2.0% per annum and matures in March 2016.
- Rede assumed debt of Denerge to BNDES, Enernmat and certain of Rede’s subsidiaries in an aggregate amount of R\$470.3 million in exchange for the release by Denerge of debt and accounts payable of Rede and certain of its subsidiaries to Denerge in the aggregate amount of R\$438.8 million. The excess of the balance of the debt assumed by Rede over the balance of the debt and accounts payable releases by EEVP is recorded as a long-term receivable of Rede. This receivable bears interest at 100% of the CDI rate plus 2.0% per annum and matures in March 2016.

On April 3, 2006, Rede sold 99.7% of the share capital of Rede Peixe Energia S.A. to Denerge for a purchase price of R\$10.0 million. Rede financed Denerge’s purchase of Rede Peixe Energia S.A. The terms of this financing require Denerge to make 60 monthly payments of R\$166,200 beginning in April 2009. The outstanding balance on this financing bears of R\$1.2 million at December 31, 2006 interest at the rate of the CDI rate plus 2% per annum.

On June 30, 2006, Rede purchased 99.99% of the share capital of EDEVP from EEVP for a purchase price of R\$118.5 million. EEVP financed Rede’s purchase of EDEVP. The terms of this financing require Rede to make three annual payments of R\$100,000 in June 2006, 2007 and 2008, followed by 84 monthly payments of R\$1.4 million beginning in July 2008. The outstanding balance on this financing of R\$127.7 million at December 31, 2006 bears interest at the rate of the CDI rate plus 2% per annum.

On June 30, 2006, Rede purchased (1) 99.99% of the share capital of REDECOM from Denerge for a purchase price of R\$46.1 million, and (2) 99.50% of the share capital of REDESERV from Denerge for a purchase price of R\$19.4 million. Denerge financed Rede’s purchases of REDECOM and REDESERV. The terms of this financing require Rede to make three annual payments of R\$6.6 million in June 2006, 2007 and 2008, followed by 84 monthly payments of approximately R\$544,000 beginning in July 2008. The outstanding balance on this financing of R\$63.5 million at December 31, 2006 bears interest at the rate of the CDI rate plus 2% per annum.

Purchases and Sales of Energy to Subsidiaries

Prior to our acquisition of REDECOM on June 30, 2006, REDECOM sold electricity to certain of our subsidiaries. Energy purchases by certain of our subsidiaries from REDECOM amounted to R\$89.5 million in 2006, R\$93.9 million in 2005 and R\$78.6 million in 2004.

BNDES Financing Agreements

We have entered into credit facilities with BNDES, BNDES is the sole holder of our first issue of debentures, and BNDESPAR, an affiliate of BNDES, is the sole holder of our convertible debentures. For a description of the terms of these debentures and credit facilities, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Indebtedness”.

DESCRIPTION OF THE NOTES

The following summary describes certain material provisions of the notes and the indenture. This summary is subject to and qualified in its entirety by reference to the provisions of the indenture and notes. Capitalized terms used in the following summary and not otherwise defined herein shall have the meaning ascribed to them in the indenture.

The 11.125% Perpetual Notes (the “Notes”) will be issued under an indenture to be dated as of April 2, 2007 (the “Indenture”), among Grupo Rede S.A., as Issuer, and The Bank of New York, as trustee, registrar, paying agent and transfer agent (the “Trustee”), The Bank of Tokyo-Mitsubishi UFJ, Ltd., as principal paying agent (the “Principal Paying Agent”) and The Bank of New York (Luxembourg) S.A., as Luxembourg paying agent and transfer agent (the “Luxembourg Paying Agent” and, together with the Principal Paying Agent, the “Paying Agents” and each a “Paying Agent”). The following summaries of certain provisions of the Indenture do not purport to be complete and are subject to, and are qualified in their entirety by reference to, all of the provisions of the Indenture. Copies of the Indenture are available for inspection during normal business hours at the Issuer’s principal office and at the office of the Trustee in New York City, New York. The holders of the Notes are entitled to the benefits of, are bound by, and are deemed to have notice of, all of the provisions of the Indenture. Wherever particular sections or defined terms of the Indenture are referred to, such sections or defined terms are incorporated herein by reference. Certain terms used in this description are defined under the subheading “—Certain Definitions.”

General

The Indenture does not limit the aggregate principal amount of the Notes that may be issued under the Indenture, although the issuance of Notes in this offering will be limited to US\$400.0 million. The Issuer may issue an unlimited principal amount of additional notes having identical terms and conditions as the Notes (the “Additional Notes”). The Issuer will only be permitted to issue such Additional Notes if, at the time of such issuance, the Issuer is in compliance with the covenants contained in the Indenture. Any Additional Notes will be part of the same issue as the Notes that the Issuer is currently offering and will vote on all matters with the holders of the Notes offered by this prospectus.

The Notes will be issued in fully registered form in denominations of US\$2,000 and integral multiples of US\$1,000 in excess thereof and will be issued as one or more Global Notes. Principal is to be payable, and the Notes will be transferable and exchangeable at the Issuer’s office or agency maintained for such purposes in New York City, New York, which initially will be the Corporate Trust Office of the Trustee; *provided* that the Global Notes will be exchangeable only in the manner and to the extent set forth under “—Form and Registration.” The Notes may be transferred, combined or divided without payment of any charge other than taxes or other governmental charges.

The initial outstanding principal amount of the Notes will be US\$400.0 million. The Notes will be perpetual notes with no fixed final maturity or redemption date. The Notes will bear interest at the rate per annum of 11.125% from April 2, 2007, the date of issuance, or from the most recent interest payment date to which interest has been paid or provided for. The Issuer will pay interest on overdue principal, to the extent lawful, at 1% per annum in excess of such rate. Interest on the Notes will be payable quarterly on January 2, April 2, July 2 and October 2 of each year, commencing on July 2, 2007, to the persons in whose names Notes are registered at the close of business on the preceding March 16, June 16, September 16 or December 16 (each a “Record Date”), as the case may be. Interest on the Notes will be computed on the basis of a 360-day year of twelve 30-day months. Holders must surrender the Notes to any Paying Agent to collect principal payments. Except as described under “—Form and Registration,” the Issuer will pay principal and interest at the office or agency of the Issuer maintained for that purpose in New York City, New York.

The principal of and interest on the Notes will be payable in U.S. dollars or in such other coin or currency of the United States as at the time of payment is legal tender for the payment of public and private debts.

Holding Company Structure

The Issuer is a holding company and does not have any material assets or operations other than its indirect ownership of the Capital Stock of CEMAT, CELPA, CELTINS and certain other companies. The claims of the creditors of the Issuer, including the claims of holders of the Notes, will be structurally subordinated to all existing and future third-party indebtedness and liabilities of the Issuer’s Subsidiaries. As of December 31, 2006, on a *pro forma* basis after giving effect to this offering and the use of proceeds hereof, the Issuer’s Subsidiaries would have had R\$4,665.2 million of Indebtedness and other liabilities, and the Notes would have been effectively subordinated to such Indebtedness and other liabilities. The Issuer’s Subsidiaries may incur other Indebtedness and liabilities in the future, which would effectively be senior to the Notes.

Ranking

The Notes will be the direct, general, unsecured, unsubordinated and unconditional obligations of the Issuer, ranking *pari passu* with all of the Issuer's other unsubordinated unsecured obligations (except those obligations preferred by operation of law). As of December 31, 2006, the Issuer had an aggregate amount of R\$651.3 million of secured indebtedness (or 74.1% of the Issuer's total outstanding indebtedness), which indebtedness would be effectively senior to the Notes to the extent of such security.

Optional Redemption

The Notes are perpetual notes and have no fixed maturity date or mandatory redemption date.

The Issuer may, at its option, redeem the Notes in whole, but not in part, on April 2, 2012 or any Interest Payment Date occurring thereafter, at a redemption price (the "Base Redemption Price") equal to (i) 100% of the aggregate principal amount of the Notes outstanding, plus (ii) accrued and unpaid interest and Additional Amounts, if any, thereon with respect to the then current interest period through the redemption date.

Notice of such redemption to each holder of Notes must be mailed and published in accordance with the provisions set out under "—Notices," not less than 30 days nor more than 60 days prior to the redemption date.

The Issuer or any of its Affiliates may purchase Notes on the market at any time (in any manner and at any price). Such Notes may be tendered to the Trustee for cancellation. Upon cancellation, such Notes will no longer be considered part of the Issuer's capitalization.

Optional Tax Redemption

At any time, the Issuer may redeem the Notes in whole, but not in part, by the giving of notice as provided in the Indenture, at a price equal to the Base Redemption Price, if, as a result of any change in, or amendment to, the laws (or any regulations or rulings promulgated thereunder) of Brazil or any political subdivision or taxing authority thereof or therein, or any change in the official application, administration or interpretation of such laws, regulations or rulings in Brazil, the Issuer has or will become obligated to pay Additional Amounts on the Notes at a rate of withholding or deduction in excess of 15% ("Excess Additional Amounts"), if such change or amendment is first announced on or after the Closing Date and such obligation cannot be avoided by the Issuer taking reasonable measures available to it; provided, however, that (1) for avoidance of doubt reasonable measures shall not include changing the jurisdiction of the Issuer or the incurrence of material out-of-pocket costs by the Issuer or an Affiliate thereof and (2) such notice of redemption shall be given earlier than 60 days prior to the earliest date on which the Issuer would be obligated to pay such Excess Additional Amounts, were a payment in respect of the Notes then due. Prior to the giving of notice of redemption of the Notes pursuant to the Indenture, the Issuer will deliver to the Trustee: (1) an Officers' Certificate to the effect that all governmental approvals necessary for the Issuer to effect such redemption, including any required approvals from the Central Bank have been or at the time of redemption will be obtained and in full force and effect, and (2) an opinion of counsel, who is reasonably acceptable to the Trustee, to the effect that the Issuer has or will become obligated to pay Excess Additional Amounts as a result of the change or amendment and that all governmental requirements necessary for the Issuer to effect the redemption have been complied with.

Notice of any redemption will be mailed at least 30 days but not more than 60 days before the redemption date to each holder of Notes to be redeemed.

Unless the Issuer defaults in payment of the redemption price, on and after the redemption date interest will cease to accrue on the Notes.

Interest Reserve

On or prior to the Closing Date, the Issuer will establish a U.S. dollar-denominated account (the "Interest Reserve Account") in the State of New York over which the Trustee will have sole and exclusive control and exclusive right of withdrawal, and will Fully Fund the Interest Reserve on the Closing Date as described below by either:

- (1) delivering to the Trustee one or more direct-pay irrevocable 180-day or 364-day letters of credit in favor of the Trustee from a bank (the "L/C Bank") rated "A-" or higher by S&P (or the equivalent rating by another rating agency) (each, a "Letter of Credit"), in an amount sufficient, when combined with any amounts credited to or deposits made into the Interest Reserve Account as described below, to Fully Fund the Interest Reserve; and/or

- (2) depositing into the Interest Reserve Account cash (and/or Cash Equivalents maturing on or before the next succeeding interest payment date under the Notes) in an amount, when combined with any Letters of Credit delivered as provided above, sufficient to Fully Fund the Interest Reserve which account, cash and Cash Equivalents and other amounts will be pledged to the Trustee for the ratable benefit of the holders of the Notes under the Interest Reserve Account Pledge Agreement.

All right, title and interest in and to all amounts on deposit from time in the Interest Reserve Account will be held by the Trustee for the benefit of the holders of the Notes.

The amount of funds available under the Letters of Credit, if any, and/or the cash or Cash Equivalents, if any, in the Interest Reserve Account constitute the "Interest Reserve." The Interest Reserve shall be deemed to be "Fully Funded" so long as, at any time, the funds on deposit in the Interest Reserve Account (including the funds available for drawing under the Letters of Credit and the aggregate principal outstanding of the Cash Equivalents) are in an amount sufficient to provide for the payment in full of the interest and Additional Amounts due on the Notes on the following three scheduled Interest Payment Dates. The term "Fully Fund" when used as a verb has a correlative meaning.

Amounts of cash on deposit in the Interest Reserve Account may be invested by the Trustee in Cash Equivalents upon the prior written direction by the Issuer to the Trustee; *provided* that after making such investment the Interest Reserve is Fully Funded.

In the event that the Issuer elects to issue any Additional Notes under the Indenture, the Issuer will, on or before the issue date thereof, either obtain an additional Letter of Credit and/or deposit into the Interest Reserve Account cash or Cash Equivalents, in an amount sufficient to ensure the Interest Reserve will be Fully Funded with respect to all of the Notes, including any Additional Notes.

If, at any time prior to the expiration date of any Letter of Credit obtained pursuant to paragraph (1) above, the L/C Bank notifies the Issuer or the Trustee that it will not renew such Letter of Credit, then no later than such expiration date, the Issuer shall obtain a new Letter of Credit from a different bank meeting the requirements of paragraph (1) above or, if no such Letter of Credit can be obtained, shall deposit sufficient cash or Cash Equivalents in the Interest Reserve Account to Fully Fund the Interest Reserve. If the Issuer has not obtained a new Letter of Credit or deposited such cash or Cash Equivalents in the Interest Reserve Account by the day that is ten Business Days prior to the expiration date of the Letter of Credit, then the Trustee shall on the following Business Day draw on the Letter of Credit in full and hold the cash received from such draw-down in the Interest Reserve Account for the benefit of the holders of the Notes.

At least two Business Day prior to any interest payment date under the Notes, the Issuer may either:

- (1) deposit with the Trustee from funds otherwise available to the Issuer cash sufficient to pay the interest scheduled to be paid on such date; or
- (2) direct the Trustee to draw on any Letter of Credit or release from the Interest Reserve Account an amount sufficient to pay the interest scheduled to be paid on such date.

Under the terms of the Interest Reserve Account Pledge Agreement, the Trustee will have a first priority security interest in the cash and Cash Equivalents and other amounts on deposit in the Interest Reserve Account for the benefit of the holders of the Notes.

Notwithstanding the foregoing, during any period after the Suspended Covenants are suspended as described under the caption "—Restrictive Covenants—Release of Covenants" and prior to the date that is five Business Days following the reinstatement of the Suspended Covenants, the Issuer shall have no obligation to Fully Fund the Interest Reserve Account.

Sinking Fund

If a Sinking Fund Triggering Event shall have occurred and be continuing, then the Issuer shall establish a U.S. dollar denominated account (the "Sinking Fund Account") in the State of New York into which the Issuer will deposit on each Interest Payment Date thereafter, cash (and/or Cash Equivalents maturing on or before the scheduled expiration or termination of the relevant Operating Subsidiary Concession or Operating Subsidiary Concessions) in an amount equal to the Sinking Fund Payment Amount. The cash or Cash Equivalents, if any, in the Sinking Fund Account constitute the "Sinking Fund."

If a Sinking Fund Triggering Event shall occur, the Company shall enter into the Sinking Fund Account Pledge Agreement with the Trustee and the Trustee will have a first priority security interest in the cash and Cash Equivalents and other amounts on deposit in the Sinking Fund Account for the benefit of the holders of the Notes.

If all Sinking Fund Triggering Events shall be cured, then, upon written request from the Issuer, the Trustee shall release all amounts in the Sinking Fund Account to the Issuer.

Restrictive Covenants

Limitation on Indebtedness

- (1) The Issuer will not, and will not permit any of its Subsidiaries to, Incur any Indebtedness unless if, on the date of the Incurrence, after giving effect to the Incurrence and the receipt and the application of the proceeds therefrom, the Issuer's Net Indebtedness to EBITDA Ratio at the date of such Incurrence is less than 4.0 to 1.0.
- (2) Notwithstanding the foregoing, the Issuer and any of its Subsidiaries may Incur the following :
 - (a) Indebtedness of any of the Issuer's Subsidiaries to or held by the Issuer or Indebtedness of any Subsidiary of the Issuer owed to any other Subsidiary of the Issuer;
 - (b) Indebtedness of the Issuer pursuant to the Notes (other than Additional Notes);
 - (c) Indebtedness ("Permitted Refinancing Indebtedness") constituting an extension or renewal of, replacement of, or substitution for, or issued in exchange for, or the net proceeds of which are used to repay, redeem, repurchase, refinance or refund, including by way of defeasance (all of the above, for purposes of this clause, "refinance") then outstanding Indebtedness in an amount not to exceed the principal amount of the Indebtedness so refinanced, plus premiums, fees and expenses; *provided that*
 - (i) in case the Indebtedness to be refinanced is subordinated in right of payment to the Notes, the new Indebtedness, by its terms or by the terms of any agreement or instrument pursuant to which it is outstanding, is expressly made subordinate in right of payment to the Notes at least to the extent that the Indebtedness to be refinanced is subordinated to the Notes,
 - (ii) the new Indebtedness does not have a Stated Maturity prior to the Stated Maturity of the Indebtedness to be refinanced,
 - (iii) Indebtedness of the Issuer may not be refinanced pursuant to this clause by means of any Indebtedness of any Subsidiary of the Issuer; provided that this subclause (iii) will not limit the ability of the Issuer to replace or substitute Indebtedness of the Issuer to any of its Subsidiaries with Indebtedness to any of its other Subsidiaries, and
 - (iv) Indebtedness Incurred pursuant to clauses (2) (a), (d), (e), (h),(i) and (j) may not be refinanced pursuant to this clause (c); provided that this clause (c) will not limit the ability of the Issuer or any of its Subsidiaries to extend, renew, replace or substitute the Indebtedness of any Subsidiary of the Issuer to or held by the Issuer as long as such Indebtedness remains to or held by the Issuer following such extension, renewal, replacement or substitution;
 - (d) Hedging Agreements of the Issuer or any Subsidiary of the Issuer entered into in the ordinary course of business for the purpose of limiting risks associated with the business of the Issuer and its Subsidiaries and not for speculation;
 - (e) Indebtedness of the Issuer or any Subsidiary of the Issuer with respect to letters of credit and bankers' acceptances issued in the ordinary course of business and not supporting Indebtedness, including letters of credit supporting performance, surety or appeal bonds;
 - (f) Acquired Indebtedness, *provided that* after giving effect to the Incurrence thereof, the Issuer could Incur at least US\$1.00 of Indebtedness under the Net Indebtedness to EBITDA Ratio test set forth in paragraph (1) of this covenant;

- (g) Indebtedness of the Issuer or any Subsidiary of the Issuer outstanding on the Closing Date;
- (h) Indebtedness of the Issuer or any Subsidiary of the Issuer, which may include Capitalized Lease Obligations, Incurred on or after the Closing Date no later than 365 days after the date of purchase or completion of construction or improvement of property for the purpose of financing all or any part of the purchase price or cost of construction or improvement, *provided* that the principal amount of any Indebtedness Incurred pursuant to this clause may not exceed (A) US\$40.0 million (or the equivalent thereof at the time of determination) less (B) the aggregate outstanding amount of Permitted Refinancing Indebtedness Incurred to refinance Indebtedness Incurred pursuant to this clause;
- (i) Indebtedness of the Issuer or any Subsidiary of the Issuer consisting of Guarantees of Indebtedness of the Issuer or any Subsidiary of the Issuer Incurred under any other clause of this covenant; and
- (j) Indebtedness of the Issuer or any Subsidiary of the Issuer Incurred on or after the Closing Date not otherwise permitted in an aggregate principal amount at any time outstanding not to exceed US\$180.0 million (or the equivalent thereof at the time of determination).

Notwithstanding anything to the contrary in this clause, the maximum amount of Indebtedness that the Issuer and its Subsidiaries may incur pursuant to this covenant shall not be deemed to be exceeded, with respect to any outstanding Indebtedness, solely as a result of fluctuations in the exchange rate of currencies.

Limitation on Sales of CELPA Shares and CELTINS Shares

- (1) The Issuer shall not sell, lease, transfer or otherwise dispose of any direct or indirect interest in the CELPA Shares or the CELTINS Shares unless:
 - (a) the Issuer or any of its Subsidiaries making such sale, lease, transfer or disposition receives consideration (including by way of relief from, or by any other Person assuming sole responsibility for, any liabilities, contingent or otherwise) at the time of such sale, lease, transfer or disposition at least equal to the Fair Market Value of the CELPA Shares and/or the CELTINS Shares subject to such sale, lease, transfer or disposition;
 - (b) at least 75% of the consideration thereof received by the Issuer or the Subsidiary or Subsidiaries making such sale, lease, transfer or disposition is in the form of cash, Temporary Cash Investments or Additional Assets; *provided* that the following will be deemed to be cash for purposes of this clause (b):
 - (i) the amount of any securities received by the Issuer or the Subsidiary or Subsidiaries making such sale, lease, transfer or disposition from such transferee that is converted by the Issuer or into cash (to the extent of the cash received) within 180 days following the closing of such sale, lease, transfer or disposition of CELPA Shares and CELTINS Shares; and
 - (ii) the amount of any liabilities (as shown on the Issuer's most recent consolidated balance sheet or in the notes thereto) of the Issuer (other than liabilities that are by their terms subordinated to the Notes), if any, that are assumed by the transferee of any such assets;
 - (c) within 360 days of the later of the date of such sale, lease, transfer or disposition of CELPA Shares and CELTINS Shares and the receipt of any Net Available Cash, the Issuer or the Subsidiary or Subsidiaries making such sale, lease, transfer or disposition will apply an amount equal to 100% of such Net Available Cash from such sale, lease, transfer or disposition of CELPA Shares and CELTINS Shares to, at its option and to the extent it so elects:
 - (i) to prepay, repay or purchase Senior Indebtedness or to repay and permanently reduce any other Indebtedness of the Issuer or any of its Subsidiaries which is secured by a Lien on the CELPA Shares or CELTINS shares being sold, leased, transferred or disposed or any Indebtedness of CELPA or CELTINS which is required to be repaid as a result of the sale, lease, transfer or disposal of such CELPA Shares or CELTINS shares;
 - (ii) to invest, or to enter into a binding agreement to invest, or reinvest in Additional Assets (including by means of an investment in Additional Assets with cash in an amount equal to the amount of Net

Available Cash received by, or to be received by, the Issuer or the Subsidiary or Subsidiaries making such sale, lease, transfer or disposition), to so reinvest in such Additional Assets; or

- (iii) to make an Offer (as defined in clause (2) below) to purchase Notes pursuant to and subject to the conditions set forth in clause (2) below; *provided, however*, that, if the Issuer elects, such Offer may be made ratably to purchase the Notes and other Senior Indebtedness; *provided, however*, that, in connection with any prepayment, repayment or purchase of Indebtedness pursuant to this clause (ii), the Issuer will retire such Indebtedness and, in the case of any such Senior Indebtedness which constitutes a revolving credit facility, will cause the related loan commitment (if any) to be permanently reduced in an amount equal to the principal amount so prepaid, repaid or purchased.

Following the application of such Net Available Cash pursuant to clauses (i), (ii) and (iii) above, the amount of Net Available Cash shall be reset at zero and the Issuer shall be entitled to use any remaining proceeds for any corporate purposes to the extent permitted under the Indenture.

Notwithstanding the foregoing provisions of this covenant, neither the Issuer nor any of its Subsidiary will be required to apply any Net Available Cash from a sale, lease, transfer or disposition of CELPA Shares or CELTINS Shares in accordance with this covenant unless the Net Available Cash from such sales, leases, transfers or dispositions that have not been applied in accordance with this covenant as a result of this paragraph exceeds US\$20 million, in which case the Issuer and/or the relevant Subsidiary or Subsidiaries shall be required to apply in accordance with this covenant all Net Available Cash that has not previously been applied in accordance with this covenant.

- (2) In the event of a sale, lease, transfer or disposition of CELPA Shares or CELTINS Shares that requires the purchase of Notes pursuant to clause (c)(iii) above, the Issuer will be required to offer to purchase Notes tendered pursuant to an offer by the Issuer for the Notes (an “Offer”) at a purchase price, in U.S. dollars, of 100% of their principal amount plus accrued and unpaid interest (including Additional Amounts, if any) thereon, to the date of purchase in accordance with the procedures (including prorating in the event of oversubscription) set forth in the Indenture, and to purchase other Senior Indebtedness on the terms and to the extent contemplated by the relevant financial documents governing such Senior Indebtedness. All amounts payable to the holders of the Notes pursuant to this clause (2) will be payable in U.S. dollars.
- (3) The Issuer will comply, to the extent applicable, with the requirements of Section 14(e) of the Exchange Act and any other applicable securities laws or regulations in connection with the repurchase of Notes pursuant to this covenant. To the extent that the provisions of any applicable securities laws or regulations conflict with provisions of this covenant, the Issuer will comply with the applicable securities laws and regulations and will not be deemed to have breached its obligations under this covenant by virtue thereof.

Nothing in this covenant shall be construed to limit the ability of the Issuer or any of its Subsidiaries to grant any Lien on any direct or indirect interest in the CELPA Shares or the CELTINS Shares.

Limitation on Transactions with Affiliates

The Issuer shall not, and shall not permit any Significant Subsidiary to, make any payment to, or sell, lease, transfer or otherwise dispose of any of its properties or assets to, or purchase any property or assets from, or enter into or make or amend any transaction, contract, agreement, understanding, loan, advance or guarantee with, or for the benefit of, any Affiliate of the Issuer or such Significant Subsidiary (each, an “Affiliate Transaction”), unless:

- (1) the Affiliate Transaction is on terms, taken as a whole, that are no less favorable to the Issuer or the relevant Significant Subsidiary than those that would have been obtained in a comparable arm’s-length transaction by the Issuer or such Significant Subsidiary with a Person that is not an Affiliate; and
- (2) the Issuer delivers to the Trustee with respect to any Affiliate Transaction or series of related Affiliate Transactions involving aggregate consideration in excess of US\$30.0 million, an Officers’ Certificate, stating that such Affiliate Transaction complies with this covenant and that, to the extent required by the bylaws of the Issuer, such Affiliate Transaction has been approved by a majority of the Board of Directors of the Issuer.

Notwithstanding the foregoing, this covenant does not apply to:

- (1) any transaction between or among the Issuer and any Subsidiary of the Issuer or between two or more Subsidiaries of the Issuer;

- (2) any loan, advance or similar financial transaction (or series of related transactions) entered into for the purpose of performing cash management or other financial management functions by the Issuer or any of its Subsidiaries with the any of its other Subsidiaries or Affiliates of the Issuer or any of its Subsidiaries; *provided* that such transactions (or series of related transactions) would not be materially adverse to the results of operations or financial condition of any such Subsidiary;
- (3) any payment of reasonable fees, benefits and compensation paid or provided to, reasonable and customary expenses reimbursed for, advancement of out-of-pocket expenses to be incurred in the ordinary course of business to, and indemnities and liability insurance provided on behalf of, officers, directors, employees or consultants of Issuer or any of its Subsidiaries;
- (4) any issuance of securities, or other payments, awards or grants in cash, securities or otherwise, pursuant to, or the funding of, employment arrangements, stock options and stock ownership plans approved by the Board of Directors of the Issuer or any Significant Subsidiary, as the case may be;
- (5) (i) any transaction of the Issuer or any Significant Subsidiary with a Person that is not an Affiliate of the Issuer at the time the transaction is entered into and that is subsequently merged with or into the Issuer, any Significant Subsidiary or any Affiliate of the Issuer or any Significant Subsidiary, or (ii) any transaction of the Issuer or any Significant Subsidiary with a Person that is not an Affiliate of the Issuer at the time the transaction is entered into and existing at the time such Person becomes a Subsidiary of the Issuer, any Significant Subsidiary or any Affiliate of the Issuer or any Significant Subsidiary, that, in each case of (i) and (ii) above, is not entered into as a result of or in connection with or in anticipation of such merger or such Person becoming a Subsidiary of the Issuer, any Significant Subsidiary or any Affiliate of the Issuer or any Significant Subsidiary;
- (6) any reasonable and customary employment, consulting, service or termination agreement, or reasonable and customary indemnification arrangements, entered into by the Issuer or any Significant Subsidiary with officers and employees of the Issuer or any Significant Subsidiary and the payment of compensation to officers and employees of the Issuer or any Significant Subsidiary including amounts paid pursuant to employee benefit plans, employee stock option or similar plans, in each case in the ordinary course of business;
- (7) any transaction of the Issuer or any Significant Subsidiary with an Affiliate thereof relating to any information technology equipment, computer software, programs or databases shared or to be shared among, or available or to be made available to, some or all Affiliates thereof; *provided* that such transaction shall be on terms that are no less favorable to the Issuer or the relevant Significant Subsidiary than the corresponding terms applicable to the other Affiliates that share in the use of such information technology equipment, computer software, programs or databases;
- (8) any intercompany loan between the Issuer and any Subsidiary or among Subsidiaries entered into or to be entered into, or any restatement, replacement, renewal, extension, refinancing thereof or thereto;
- (9) any payments in the ordinary course of business and consistent with past practice made in connection with infrastructure and personnel sharing arrangements among the Issuer or any of its Subsidiaries and its Affiliates;
- (10) agreements for purchase or sale, transportation or transmission, interconnection and distribution of energy or agreements for the use of the electricity system entered into in accordance with the applicable Brazilian rules and regulations, including, without limitation, public auctions or bids managed by the CCEE or any governmental authority or regulatory agency, in each case which are on terms that are no less favorable to the Issuer or the relevant Significant Subsidiary than those that would have been obtained in a comparable arm's length transaction by the Issuer or such Significant Subsidiary with a Person that is not an Affiliate;
- (11) any dividends or other distributions in respect of the Capital Stock or equity interests of the Issuer or any of its Subsidiaries;
- (12) loans and advances to officers, directors and employees of the Issuer or any Significant Subsidiary made in the ordinary course of business in an amount not to exceed US\$2.0 million per officer, director or employee and in aggregate amount not to exceed US\$20.0 million outstanding at any one time;
- (13) any contract or agreement in effect on the Closing Date as the same may be amended, supplemented, restated, replaced, renewed, extended or refinanced from time (so long as any such amended, supplemented, restated, replaced, renewed, extended or refinanced contract or agreement, taken as a whole, is no less favorable in any

material respect to Issuer or such Significant Subsidiary than contract or agreement as in effect on the Closing Date) or any transactions contemplated thereby; and

- (14) the issuance or sale of Capital Stock of Issuer (or any security convertible into or exchangeable for or otherwise representing the right to acquire any such Capital Stock).

Limitation on Dividend and Other Payment Restrictions Affecting Significant Subsidiaries

Except as provided in the following paragraph, the Issuer shall not, and shall not permit any Significant Subsidiary to, create or permit to exist or become effective any consensual encumbrance or restriction on the ability of any Significant Subsidiary to:

- (1) pay dividends or make any other distributions on its Capital Stock to the Issuer or any Significant Subsidiary;
- (2) pay any Indebtedness owed to the Issuer or any Significant Subsidiary;
- (3) make loans or advances to the Issuer or any Significant Subsidiary; or
- (4) transfer any of its properties or assets to the Issuer or any Significant Subsidiary.

The provisions of the preceding paragraph do not apply to any encumbrances or restrictions:

- (a) existing at any time or from time to time under or by reason of applicable law or governmental rule, regulation or order;
- (b) on any property or assets acquired from a Person which is merged with or into the Issuer or any Significant Subsidiary, or by reason of any Liens on the property or assets, or relating to the Indebtedness, of any Person or other entity existing at the time such Person or other entity becomes a Significant Subsidiary, or restriction relating to Indebtedness of any such Person and, in any such case, is not created as a result of or in connection with or in anticipation of any such transaction; *provided* that any such encumbrance or restriction created to secure or provide for the payment of any part of the purchase price of such Person shall not be permitted by this covenant; *provided further*, that such encumbrance or restriction may not extend to any other property owned by the Issuer or any Significant Subsidiary;
- (c) on any property or assets existing at the time of acquisition thereof and which is not created as a result of or in connection with or in anticipation of such acquisition; *provided* that any such encumbrance or restriction created to secure or provide for the payment of any part of the purchase price of such Person shall not be permitted by this covenant; *provided further*, that such encumbrance or restriction may not extend to any other property owned by the Issuer or any Significant Subsidiary;
- (d) in the case of clauses (2), (3) and (4) above:
 - (i) that exist by virtue of any transfer of, agreement to transfer, option or right with respect to, or Lien on, any property or assets of the Issuer or any Significant Subsidiary not otherwise prohibited by the Indenture;
 - (ii) that restrict in a customary manner the subletting, assignment or transfer of any property or asset that is subject to a lease, license or similar contract, or the assignment or transfer of any such lease, license or other contract or contractual right;
 - (iii) contained in mortgages, pledges or other security agreements permitted under the Indenture securing Indebtedness of the Issuer or a Significant Subsidiary to the extent such encumbrances or restrictions restrict the transfer of the property subject to such mortgages, pledges or other security agreements other than to the Issuer;
 - (iv) imposed by Purchase Money Obligations for property acquired in the ordinary course of business or by Capitalized Lease Obligations permitted under the Indenture on the property so acquired, but only to the extent that such encumbrances or restrictions restrict the transfer of the property other than to the Issuer; or

- (v) reasonable and customary restrictions on cash or other deposits or net worth imposed by customers or regulatory authorities under contracts entered into in the ordinary course of business or required by applicable law or regulation;
- (e) by reason of Liens that secure Indebtedness that limit the right of the debtor to dispose of the assets subject to such Liens;
- (f) imposed with respect to a Significant Subsidiary pursuant to an agreement entered into for the sale or disposition of all or substantially all the Capital Stock or assets of such Significant Subsidiary pending the closing of such sale or disposition;
- (g) resulting from restrictions on cash or other deposits or other customary requirements imposed by customers or suppliers under contracts entered into in the ordinary course of business;
- (h) imposed by the standard loan documentation in connection with loans from (i) BNDES (including loans from *Financiadora de Estudos e Projetos – FINEP*), or any other Brazilian governmental development bank or credit agency, (ii) the International Finance Corporation or the Inter-American Development Bank, or (iii) any other governmental or multi-lateral development bank, government-sponsored agency, export-import bank or official export-import credit insurer, in any such case, to the Issuer or any Significant Subsidiary;
- (i) with respect to a Significant Subsidiary and imposed pursuant to a customary provision in a joint venture or other similar agreement with respect to such Significant Subsidiary that was entered into in the ordinary course of business;
- (j) existing on the Closing Date; and
- (k) any encumbrances or restrictions of the type referred to in clauses (1), (2), (3) and (4) above imposed by any extensions, amendments, modifications, restatements, renewals, increases, supplements, refundings, replacements or refinancings of the contracts, instruments or obligations referred to in clauses (a) through (j) above; *provided*, that such extensions, amendments, modifications, restatements, renewals, increases, supplements, refundings, replacements or refinancings are, in the good faith judgment of the management of the Issuer or the applicable Significant Subsidiary, as evidenced by an Officers' Certificate delivered to the Trustee, no more restrictive, taken as a whole, with respect to such dividend and other payment restrictions than those contained in the dividend or other payment restrictions prior to such extension, amendment, modification, restatement, renewal, increase, supplement, refunding, replacement or refinancing.

Consolidation, Merger, Conveyance, Sale or Lease

The Issuer will not consolidate with or merge with or into, or convey, transfer or lease all or substantially all of its assets to, any Person, unless:

- (a) the Person formed by such consolidation or into which the Issuer is merged or the Person which acquires by conveyance or transfer, or which leases, all or substantially all of the Issuer's assets is a Person (the "Successor") organized and existing under the laws of Brazil, the United States of America (including any State thereof or the District of Columbia), or any other country (or political subdivision thereof) that is a member country of the European Union or of the Organization for Economic Cooperation and Development on the Closing Date (such country, including any political subdivision or taxing authority thereof or therein, under the laws of which the Successor is organized and existing, the "Successor Jurisdiction", and the Successor (if not the Issuer) expressly assumes, by a supplemental indenture to the Indenture, executed and delivered to the Trustee, all of the Issuer's obligations under the Notes and the Indenture;
- (b) immediately after giving effect to such transaction, no Default or Event of Default will have occurred and be continuing; and
- (c) the Issuer has delivered to the Trustee an Officers' Certificate and an opinion of counsel, each stating that such consolidation, merger, conveyance, transfer or lease and such supplemental indenture, if any, comply with the Indenture.

The Trustee will accept such certificate and opinion as sufficient evidence of the satisfaction of the conditions precedent set forth in this covenant, in which event it will be conclusive and binding on the holders.

The Successor will succeed to, and be substituted for, and may exercise every right and power of, Issuer under the Indenture, and thereafter the predecessor company shall be relieved of all obligations and covenants under the Indenture.

Further Issuances; Tax Consequences

The Issuer shall be permitted to issue Additional Notes of any class from time to time only as permitted under the Indenture. Notes holders should note that Additional Notes that are treated as a single series for non-tax purposes may be treated as separate issues for U.S. federal income tax purposes. In such case, the Additional Notes may be considered to have been issued with original issue discount as defined in the U.S. Internal Revenue Code of 1986, as amended, and the U.S. Treasury Regulations issued thereunder, which may adversely affect the market value of the Notes since such Additional Notes may not be distinguishable from the Notes.

Release of Covenants

If on any date following the Closing Date:

- (1) the Notes have been assigned an Investment Grade Rating by any two Rating Agencies; and
- (2) no Default shall have occurred and be continuing,

then, beginning on that day and subject to the provisions of the following paragraph, the covenants specifically listed under the following captions will automatically, without any notice of any kind, be suspended (and the Issuer will not have any obligation or liability whatsoever with respect to such covenants):

- (a) “—Limitation on Indebtedness”;
- (b) “—Limitation on Sales of CELPA Shares and CELTINS Shares”;
- (c) “—Limitation on Transactions with Affiliates”; and
- (d) “—Limitation on Dividend and Other Payment Restrictions Affecting Significant Subsidiaries”.

Clauses (a) through (d) above are collectively referred to as the “Suspended Covenants.”

In addition, during any period after the Suspended Covenants are suspended and prior to the date that is five Business Days following the reinstatement of the Suspended Covenants, the Issuer shall have no obligation to Fully Fund the Interest Reserve Account.

If, during any period in which the Suspended Covenants are suspended, the Notes cease to have an Investment Grade Rating by any two Rating Agencies, the Suspended Covenants will thereafter be reinstated and be applicable pursuant to the terms of the Indenture (including in connection with performing any calculation or assessment to determine compliance with the terms of the Indenture), unless and until the Notes subsequently attain an Investment Grade Rating by any two Rating Agencies (in which event the Suspended Covenants will again be suspended for such time that the Notes maintain an Investment Grade Rating by any two Rating Agencies); *provided, however*, that no Default or breach or violation of any kind will be deemed to exist under the Indenture or the Notes with respect to the Suspended Covenants (whether during the period when the Suspended Covenants were suspended or thereafter) based on, and the Issuer will not bear any liability (whether during the period when the Suspended Covenants were suspended or thereafter) for, any actions taken or events occurring after the Notes attain an Investment Grade Rating by any two Rating Agencies and before any reinstatement of the Suspended Covenants as provided above, or any actions taken at any time (whether during the period when the Suspended Covenants were suspended or thereafter) pursuant to any contractual obligation arising prior to the reinstatement, regardless of whether those actions or events would have been permitted if the applicable Suspended Covenant had remained in effect during such period.

Repurchases at the Option of the Holders of the Notes Upon Change of Control

If a Change of Control that results in a Rating Decline occurs, each holder of Notes will have the right to require the Issuer to repurchase all or any part (equal to US\$2,000 and integral multiples of US\$1,000 in excess thereof) of that holder's Notes at a purchase price (the “Change of Control Payment”) equal to 101% of the principal amount thereof, plus accrued and unpaid interest and Additional Amounts, if any, thereon through the date of purchase (subject to the right of holders of record on the relevant record date to receive interest and Additional Amounts, if any, due on the relevant

interest payment date). No such purchase in part shall reduce the outstanding principal amount at maturity of the Notes held by any holder to below US\$2,000.

Within 30 days following the date upon which a Change of Control that results in a Rating Decline occurs, the Issuer will make a “Change of Control Offer” by notice to each holder of Notes by mailing and publishing such notice in accordance with the provision set out under “—Notices”, describing the transaction or transactions that constitute the Change of Control and offering to repurchase Notes on the date specified in the notice (the “Change of Control Payment Date”), which date will be no earlier than 30 days and no later than 60 days from the date such notice is mailed, pursuant to the procedures required by the Indenture and described in such notice.

The Issuer will comply, to the extent applicable, with the requirements of Section 14(e) of the Exchange Act and any other applicable securities laws or regulations in connection with the repurchase of Notes pursuant to this covenant. To the extent that the provisions of any applicable securities laws or regulations conflict with provisions of this covenant, the Issuer will comply with the applicable securities laws and regulations and will not be deemed to have breached its obligations under this covenant by virtue of its compliance with such securities laws or regulations.

On the Change of Control Payment Date, the Issuer will, to the extent lawful:

- (1) accept for payment all Notes or portions of Notes properly tendered and not withdrawn pursuant to the Change of Control Offer;
- (2) deposit with the Principal Paying Agent an amount in U.S. dollars equal to the Change of Control Payment in respect of all Notes or portions thereof so tendered; and
- (3) deliver or cause to be delivered to the Trustee the Notes so accepted together with an Officers’ Certificate stating the aggregate principal amount of Notes or portions thereof being purchased by the Issuer.

The paying agents under the Indenture will promptly mail to each holder of Notes properly tendered the Change of Control Payment in U.S. dollars for such Notes, and the Trustee will promptly authenticate and mail (or cause to be transferred by book entry) to each holder a new Note equal in principal amount to any unpurchased portion of the Notes surrendered, if any; *provided* that each new Note will be in a principal amount of US\$2,000 or an integral multiple of US\$1,000 in excess thereof. The Issuer will publicly announce the results of the Change of Control Offer on or as soon as practicable after the Change of Control Payment Date.

The provisions described above that require the Issuer to make a Change of Control Offer following a Change of Control will be applicable whether or not any other provisions of the Indenture are applicable. Except as described above with respect to a Change of Control, the Indenture does not contain provisions that permit the holders of the Notes to require that the Issuer repurchase or redeem the Notes in the event of a takeover, recapitalization or similar transaction.

The Issuer will not be required to make a Change of Control Offer upon a Change of Control if a third party makes the Change of Control Offer in the manner, at the times and otherwise in compliance with the requirements set forth in the Indenture, that are applicable to a Change of Control Offer made by the Issuer, and such third party purchases all Notes properly tendered and not withdrawn under the Change of Control Offer.

Subject to applicable law, a Change of Control Offer may be made in advance of a Change of Control and conditioned upon the occurrence of such Change of Control if a definitive agreement is in place for the Change of Control at the time of making of the Change of Control Offer.

Events of Default

Events of Default with respect to the Notes means any one of the following events (each, an “*Event of Default*”):

- (1) a default for 30 consecutive days in payment of any interest or Additional Amounts on the Notes after the same becomes due and payable;
- (2) a default in the payment of the principal of (or premium, if any, on) the Notes when the same becomes due and payable upon optional redemption, required purchase, declaration of acceleration or otherwise;
- (3) a failure by the Issuer to comply with the provisions described under “—Limitation on Consolidation, Merger or Transfer of Assets”;

- (4) a default in the performance, or breach, of any covenant, agreement or obligation of the Issuer contained in the Indenture and continuance of such default or breach for a period of 60 consecutive days after written notice specifying such default or breach, requiring it to be remedied and stating that such notice is a “Notice of Default” is given to the Issuer by the Trustee or to the Issuer and the Trustee by the holders of at least 25% in aggregate principal amount of the Notes;
- (5) a default by Issuer or any Significant Subsidiary under any mortgage, indenture or instrument under which there may be issued or by which there may be secured or evidenced any Indebtedness for money borrowed by the Issuer or any Significant Subsidiary (or the payment of which is Guaranteed by the Issuer or any Significant Subsidiary) whether such Indebtedness or Guarantee now exists, or is created after the Closing Date, if that default (a) is caused by failure to pay the principal of, or interest or premium, if any, on, such Indebtedness after giving effect to any grace period provided in such Indebtedness on the date of such default (“Payment Default”), or (b) results in the acceleration of such Indebtedness prior to its stated maturity and, in each case, the principal amount of any such Indebtedness, together with the principal amount of any other such Indebtedness under which there has been a Payment Default or the maturity of which has been so accelerated, totals US\$40.0 million (or the equivalent in any other currency or currencies at the time of determination) or more in the aggregate;
- (6) a failure by the Issuer to keep the Interest Reserve Fully Funded for a period of more than ten consecutive Business Days during any period prior to the date on which the Suspended Covenants are suspended or after the date on which the Suspended Covenants are reinstated;
- (7) any final, non-appealable, judgment or order for the payment of money in excess of, US\$40.0 million (or its equivalent in other currencies at the time of determination), to the extent not covered by insurance as acknowledged in writing by the insurer, is rendered against the Issuer or any Significant Subsidiary and such judgment or order is not paid (whether in full or in installments in accordance with the terms of the judgment) or otherwise discharged and remains unstayed for a period of 60 days after such judgment becomes final and non-appealable or, if later, the date therein specified for payment; and
- (8) certain events of bankruptcy, insolvency or reorganization of the Issuer or any Significant Subsidiary.

The Issuer will deliver to the Trustee, within ten Business Days after an officer of the Issuer obtains knowledge of any Default or Event of Default, if such Default or Event of Default is continuing, written notice of the status of such Default or Event of Default and what action the Issuer is taking or proposing to take in respect thereof. The Indenture provides that the Trustee may withhold notice to the holders of the Notes of any Default (except in payment of principal of, or interest, if any, on the Notes) if the Trustee in good faith determines that it is in the interest of the holders of the Notes to do so.

The Indenture will provide that, if an Event of Default (other than an Event of Default involving a bankruptcy, insolvency or similar event in respect of the Issuer) with respect to the Notes specified therein shall have occurred and be continuing, either the Trustee or the holders of at least 25% in aggregate principal amount of the Notes then outstanding may declare all unpaid principal of and accrued interest on all the Notes to be due and payable immediately. The Indenture provides that if an Event of Default involving a bankruptcy, insolvency or other similar event in respect of the Issuer shall have happened, the unpaid principal of all the Notes will be immediately due and payable without notice or any other act on the part of the Trustee or any holder of the Notes.

However, if all Defaults are cured (other than the nonpayment of principal of and accrued interest on the Notes at maturity or which shall become due by acceleration) and certain other conditions are met, such declaration may be rescinded by the holders of not less than a majority in aggregate principal amount of the outstanding Notes. In addition, past Defaults with respect to the Notes may be waived by the holders of not less than a majority in aggregate principal amount of the Notes except (i) a Default in the payment of principal of (or premium, if any) or interest, if any, on any Note or (ii) in respect of a covenant or provision of the Indenture which cannot be modified or amended without the consent of the holder of each outstanding Note.

Subject to the provisions of the Indenture relating to the duties of the Trustee in case an Event of Default will occur and be continuing, the Trustee will be under no obligation to exercise any of its rights or powers under the Indenture at the request or direction of any of the holders of the Notes, unless such holders will have offered to the Trustee reasonable security or indemnity. Subject to such provision for indemnification, the holders of a majority in aggregate principal amount of the outstanding Notes will have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or exercising any trust or power conferred on the Trustee with respect to the Notes; *provided* that the Trustee shall have the right to decline to follow any such direction if the Trustee shall determine

that the action so directed conflicts with any law or the provisions of the Indenture or if the Trustee shall determine that such action would be prejudicial to holders of the Notes not taking part in such direction.

No holder of any Note shall have any right to institute any proceeding, judicial or otherwise, with respect to the Indenture or the Notes, or for the appointment of a receiver or trustee, or for any other remedy thereunder, unless:

- (i) such holder has previously given written notice to the Trustee of a continuing Event of Default with respect to the Notes;
- (ii) the holders of not less than 25% in aggregate principal amount of outstanding Notes will have made a written request to the Trustee to institute proceedings in respect of such Event of Default in its own name as Trustee thereunder;
- (iii) such holder or holders have offered to the Trustee an indemnity reasonably satisfactory to it against the costs, expenses and liabilities to be incurred in compliance with such request;
- (iv) the Trustee during the 60 days after its receipt of such notice, request and offer of indemnity has failed to institute any such proceeding; and
- (v) no direction inconsistent with such written request has been given to the Trustee during such 60-day period by holders of a majority in principal amount of the outstanding Notes;

it being understood and intended that no one or more of such holders shall have any right in any manner whatever by virtue of, or by availing of, any provision of the Indenture to affect, disturb or prejudice the rights of any other of such holders, or to obtain or to seek to obtain priority or preference over any other of such holders or to enforce any right under the Indenture, except in the manner therein provided and for the equal and ratable benefit of all such holders.

Notwithstanding any other provision of the Indenture, the holder of any Note shall have the right, which is absolute and unconditional, to receive payment of principal of or premium, if any, on such Note when the same becomes due and payable upon optional redemption, required purchase, declaration of acceleration or otherwise, and interest, if any, on such Note and to institute suit for the enforcement of any such payment, and such rights shall not be impaired without the consent of such holder.

Additional Amounts

All payments of principal and interest in respect of the Notes shall be made free and clear of, and without withholding or deduction for or on account, of any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or within Brazil or by or within any political subdivision thereof or any authority therein or thereof having power to tax ("Local Taxes"), unless such withholding or deduction is required by law. In the event of any such withholding or deduction, the Issuer shall pay to the holders of the Notes in U.S. dollars such additional amounts ("Additional Amounts") as will result in the payment to such holder of the U.S. dollar amount that would otherwise have been receivable by such holder in the absence of such withholding or deduction, except that no such Additional Amounts shall be payable:

- (a) to, or to a third party on behalf of, a holder who is liable for Local Taxes in respect of such Note by reason of the existence of any present or former connection between such holder (or between a fiduciary, settlor, beneficiary, member or shareholder of such holder, if such holder is an estate, a trust, a partnership, or a corporation) and Brazil, including without limitation, such holder (or such fiduciary, settlor, beneficiary, member or shareholder) being or having been a citizen or resident thereof or being or having been engaged in a trade or business or present therein or having, or having had, a permanent establishment therein, other than the mere holding of the Note or enforcement of rights and the receipt of payments with respect to the Note;
- (b) in respect of any Local Taxes that would not have been so withheld or deducted if the Note had been presented for payment within 30 days after the Relevant Date (as defined below);
- (c) to, or to a third party on behalf of, a holder who is liable for such Local Taxes by reason of such holder's failure to
 - (i) make a declaration of non-residence, or any other claim or filing for exemption, to which it is entitled or
 - (ii) comply with any certification, identification, information, documentation or other reporting requirement concerning its nationality, residence, identity or connection with Brazil or any political subdivision thereof or therein having power to tax;

- (d) in respect of any estate, inheritance, gift, value added, sales, use, excise, transfer, personal property or similar taxes, duties, assessments or other governmental charges;
- (e) in respect of any Local Taxes payable other than by withholding or deduction;
- (f) in respect of any payment to a holder of a Note that is a fiduciary or partnership or any Person other than the sole beneficial owner of such payment or Note, to the extent that a beneficiary or settlor with respect to such fiduciary, a member of such partnership or the beneficial owner of such payment or Note would not have been entitled to the Additional Amounts had such beneficiary, settlor, member or beneficial owner been the actual holder of such Note;
- (g) in respect of any withholding or deduction imposed on a payment to an individual that is required to be made pursuant to the European Union Directive on the taxation of savings income (the “Directive”), or any law implementing or complying with, or introduced in order to conform to, such Directive;
- (h) in respect of any taxes imposed in connection with a Note presented for payment by or on behalf of a holder thereof who would have been able to avoid such tax by presenting the relevant Note to another paying agent in a member state of the European Union if the holder of the Note is a resident of the European Union for tax purposes; or
- (i) in respect of any combination of (a) through (h) above.

“Relevant Date” means, with respect to any payment due from the Issuer, whichever is the later of (i) the date on which such payment first becomes due and (ii) if the full amount payable has not been received in New York City, New York by the Trustee on or prior to such due date, the date on which, the full amount having been so received, notice to that effect shall have been given to the holders of the Notes in accordance with the Indenture.

References to principal and interest in respect of the Notes shall be deemed also to refer to any Additional Amounts which may be payable as set forth in the Indenture or in the Notes.

At least ten Business Days prior to the first Interest Payment Date (and at least ten Business Days prior to each succeeding Interest Payment Date if there has been any change with respect to the matters set forth in the below-mentioned Officers’ Certificate), the Issuer will furnish to the Trustee and each paying agent an Officers’ Certificate instructing the Trustee and each such paying agent whether payments of principal of or interest on the Notes due on such interest payment date shall be without deduction or withholding for or on account of any Local Taxes. If any such deduction or withholding shall be required, prior to such interest payment date, the Issuer will furnish the Trustee and each such paying agent with an Officers’ Certificate which specifies the amount, if any, required to be withheld on such payment to holders of the Notes and certifies that the Issuer shall pay such withholding or deduction. Any Officers’ Certificate required by the Indenture to be provided to the Trustee and any paying agent for these purposes shall be deemed to be duly provided if telecopied to the Trustee and such paying agent.

To the extent available, the Issuer shall furnish to the Trustee the official receipts (or a certified copy of the official receipts) evidencing payment of Local Taxes. Copies of such receipts shall be made available to holders of the Notes upon request.

The Issuer shall promptly pay when due any present or future stamp, court or documentary taxes or any other excise or property taxes, charges or similar levies that arise in any jurisdiction from the execution, delivery or registration of each Note or any other document or instrument referred to herein or therein, excluding any such taxes, charges or similar levies imposed by any jurisdiction outside of Brazil and except, in certain cases, for taxes, charges or similar levies resulting from certain registration of transfer or exchange of Notes.

Reports

The Issuer shall provide the Trustee and, upon request, the holders of the Notes:

- (a) within 120 days following the end of each fiscal year of the Issuer after the Closing Date, the annual audited consolidated financial statements of the Issuer (including the notes thereto) prepared in accordance with Brazilian GAAP and presented in the English language; and
- (b) within 75 days following the end of each of the first three fiscal quarters in each fiscal year of the Issuer beginning with the quarter ending after the Closing Date, unaudited consolidated financial statements with respect to such

fiscal quarter (including the notes thereto), prepared in accordance with Brazilian GAAP and presented in the English language.

In addition, the Issuer will furnish to the holders of the Notes and to prospective investors, upon request of such holders or investors, any information required to be delivered (i) pursuant to Rule 144A(d)(4) under the Securities Act so long as the Notes are not freely tradable under the Securities Act, and (ii) to shareholders under Brazilian law.

For so long as any of the Notes are outstanding, the above information will be made available at the specified offices of each paying agent. For so long as the Notes are listed on the Official List of the Luxembourg Stock Exchange and the rules of such exchange so require, the above information will also be made available in Luxembourg through the offices of the Luxembourg Paying Agent.

Modification of the Indenture

The Indenture contains provisions permitting the Issuer, the Trustee and the Principal Paying Agent, with the consent of the holders of a majority in aggregate in principal amount of the Notes at the time outstanding to modify the Indenture or any supplemental indenture or the rights of the holders of the Notes; *provided* that no such modification shall without the consent of the holder of each outstanding Note affected thereby:

- reduce the principal amount of any Note or the rate of interest thereon (including Additional Amounts) or extend the time for any payment thereof, or change any place of payment or the currency in which any Note or the interest thereon is payable, or impair the right to institute suit for the enforcement of any such payment;
- reduce the percentage in principal amount of the outstanding Notes, the consent of whose holders is required for any waiver (of compliance with certain provisions of the Indenture or certain defaults thereunder and their consequences) provided for in the Indenture; or
- modify certain other provisions of the Indenture.

The Indenture provides that Notes owned by the Issuer or any of its Affiliates shall be deemed not to be outstanding for, among other purposes, consenting to any such modification.

The Indenture also contains provisions permitting the Issuer, the Trustee and the Principal Paying Agent to amend the Indenture in certain circumstances without the consent of the holders of any Notes to evidence the replacement of the Trustee, evidence the Issuer's merger, cure any ambiguity, omission, defect or inconsistency, secure the Notes, add to the covenants of the Issuer for the benefit of the holders or surrender any right or power conferred upon the Issuer, make any change that does not adversely affect the rights of any holder, make certain changes to the Indenture to provide for the issuance of Additional Notes, conform the text of the Indenture or the Notes to any provision of this Description of Notes, to provide for the acceptance of appointment by a successor Trustee and for certain other purposes.

No Personal Liability of Directors, Officers, Employees and Shareholders

No past, present or future director, officer, partner, employee, incorporator, shareholder or member of the Issuer or any Subsidiary or Affiliate of the Issuer shall have any liability for any obligations of the Issuer under the Notes or the Indenture or for any claim based on, in respect of, or by reason of, such obligations or their creation. Each holder of Notes, by accepting a Note, waives and releases all such liability. Such waivers and releases are part of the consideration for issuance of the Notes. The waivers may not be effective to waive liabilities under the U.S. federal securities laws or under the Brazilian Corporate Law.

Enforceability of Judgments

Since the Issuer is incorporated in Brazil and the Subsidiaries of the Issuer may be incorporated in various non-U.S. jurisdictions, including Brazil, and all the Issuer's operating assets and the operating assets of its Subsidiaries may be outside the United States, any judgment obtained in the United States against the Issuer or any of its Subsidiaries, including judgments with respect to the payment of principal, premium, interest, Additional Amounts and any purchase price with respect to the Notes, may not be collectable within the United States. See "Enforceability of Civil Liabilities."

Luxembourg Listing

Application has been made to list the Notes on the Official List of the Luxembourg Stock Exchange and to trade on the Euro MTF market, and the Issuer will use its commercially reasonable efforts to obtain and maintain listing of the Notes on the Official List of the Luxembourg Stock Exchange.

The European Union has adopted a Directive (2004/109 (EC)), (the “Transparency Directive”) on the harmonization of transparency requirements relating to financial information of issuers whose securities are admitted for trading on a regulated market in the European Union, such as the Luxembourg Stock Exchange. If any European or national legislation is adopted and is implemented or takes effect in Luxembourg in a manner that would require the Issuer to publish or produce financial statements according to accounting principles or standards that are different from Brazilian GAAP, or that would otherwise impose requirements on the Issuer that the Issuer, in its discretion, determines are impracticable or unduly burdensome, the Issuer may apply to delist the Notes. The Issuer will use its reasonable best efforts to obtain an alternative admission to listing, trading and/or quotation for the Notes by another listing authority, exchange and/or system within or outside the European Union, as it may reasonably decide. If such an alternative admission for listing of the Notes is not available or is, in the reasonable opinion of the Issuer, unduly burdensome, an alternative admission may not be obtained. Notice of any de-listing and/or alternative admission will be given as described under “—Notices.”

Luxembourg Listing Agent, Luxembourg Paying Agent and Luxembourg Transfer Agent

The Bank of New York (Luxembourg) S.A. is the Luxembourg listing agent, Luxembourg paying agent and Luxembourg transfer agent in respect of the Notes. The Issuer will maintain such appointments so long as the Notes are listed on the Official List of the Luxembourg Stock Exchange, and the rules of the exchange so require. The address of The Bank of New York (Luxembourg) S.A. is set forth on the inside back cover of this prospectus.

Notices

All notices shall be deemed to have been given upon the mailing by first class mail, postage prepaid, of such notices to the holders of the Notes at their registered addresses as recorded in the register of Notes not later than the latest date, and not earlier than the earliest date, prescribed in the Notes for the giving of such notice.

As long as the Notes are listed on the Official List of the Luxembourg Stock Exchange and its rules so require, the Issuer will also give notices to the holders of the Notes by publication in a daily newspaper of general circulation in Luxembourg. Notices may also be published on the website of the Luxembourg Stock Exchange (www.bourse.lu). If published by newspaper, the Issuer expects that newspaper to be, but it need not be, the *d’Wort*. If publication in Luxembourg is impracticable, the Issuer will make the publication elsewhere in Western Europe. By “daily newspaper” the Issuer means a newspaper that is published on each day, other than a Saturday, Sunday or holiday, in Luxembourg or, when applicable, elsewhere in Western Europe. The holders of the Notes will be presumed to have received these notices on the date the Issuer first publishes them. If the Issuer is unable to give notice as described in this paragraph because the publication of any newspaper is suspended or it is otherwise impractical for the Issuer to publish the notice, then the Issuer, or the Trustee acting on its instructions and at its expense, will give the holders of the Notes notice in another form. That alternate form of notice will be sufficient notice to the holders of the Notes.

Neither the failure to give any notice to a particular holder of Notes, nor any defect in a notice given to a particular holder of Notes, will affect the sufficiency of any notice given to another holder of Notes.

Form and Registration

The Notes will be represented by Regulation S Global Notes (as defined below) and Restricted Global Notes (as defined below) (each sometimes referred to herein as a “global Note” and together sometimes referred to herein as the “Global Notes”).

Notes sold outside the United States in reliance on Regulation S will be represented by one or more global Notes in definitive, fully registered form without interest coupons (collectively, “Regulation S Global Notes”) and will be deposited with the Trustee as custodian for DTC, and registered in the name of DTC or its nominee for the accounts of Euroclear and Clearstream (as indirect participants in DTC).

Notes sold in reliance on Rule 144A under the Securities Act initially will be represented by one or more global Notes in definitive, fully registered form without interest coupons (collectively, “Restricted Global Notes”) and will be

deposited with the Trustee as custodian for DTC and registered in the name of DTC or its nominee. Restricted Global Notes will be subject to certain restrictions on transfer and will bear a legend to that effect as described under “Notice to Investors.”

Beneficial interests in Regulation S Global Notes may be transferred to a person who takes delivery in the form of an interest in Restricted Global Notes only upon receipt by the Trustee of a written certification from the transferor (in the form provided in the Indenture) to the effect that such transfer is being made to a person that the transferor reasonably believes is a qualified institutional buyer in a transaction meeting the requirements of Rule 144A and in accordance with any applicable securities laws of any state of the United States or any other jurisdiction.

Beneficial interests in Restricted Global Notes may be transferred to a person who takes delivery in the form of an interest in Regulation S Global Notes only upon receipt by the Trustee of a written certification from the transferor (in the form provided in the Indenture) to the effect that such transfer is being made in accordance with Rule 903 or Rule 904 of Regulation S or Rule 144 under the Securities Act. Any beneficial interest in one of the Global Notes that is transferred to a person who takes delivery in the form of an interest in the other global Note will, upon transfer, cease to be an interest in such global Note and become an interest in the other global Note and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in such other global Note for as long as it remains such an interest.

Global Notes

Upon the issuance of Regulation S Global Notes and Restricted Global Notes, DTC or its custodian will credit, on its internal system, the respective principal amount of the individual beneficial interests represented by such global Note to the accounts of persons who have accounts with DTC. Such accounts initially will be designated by or on behalf of the Initial Purchaser. Ownership of beneficial interests in a global Note will be limited to persons who have accounts with DTC (“DTC Participants”) or persons who hold interests through DTC Participants. Ownership of beneficial interests in the Global Notes will be shown on, and the transfer of that ownership will be effected only through, records maintained by DTC or its nominee (with respect to interests of DTC Participants) and the records of DTC Participants (with respect to interests of persons other than DTC Participants).

So long as DTC or its nominee is the registered owner or holder of a global Note, DTC, or such nominee, as the case may be, will be considered the sole owner or holder of the Notes represented by such global Note for all purposes under the Indenture. No beneficial owner of an interest in a global Note will be able to transfer that interest except in accordance with DTC’s applicable procedures, in addition to those provided for under the Indenture.

Investors may hold their interests in Regulation S Global Notes directly through Euroclear or Clearstream, if they are participants in such systems, or indirectly through organizations that are participants in such systems. Euroclear and Clearstream will hold interests in the Regulation S Global Notes on behalf of their participants through customers’ securities accounts in their respective names on the books of their respective depositories, which in turn will hold such interests in Regulation S Global Notes in customers’ securities accounts in the depositories’ names on the books of DTC. Investors that are qualified institutional buyers may hold their interests in Restricted Global Notes directly through DTC if they are DTC Participants, or indirectly through organizations that are DTC Participants.

Payments of the principal and interest and any Additional Amounts on individual Notes represented by a global Note registered in the name of DTC or its nominee will be made to DTC or its nominee, as the case may be, as the registered owner of the global Note representing such Notes. None of the Issuer, the Trustee or any Paying Agent will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interests in the Global Notes or for maintaining, supervising, or reviewing any records relating to such beneficial ownership interests. The Issuer expects that DTC or its nominee, upon receipt of any payment of principal, interest or Additional Amounts, if any, in respect of a global Note representing any Notes held by it or its nominee, will credit DTC Participants’ accounts with payments in amounts proportionate to their respective beneficial interests in the principal amount of such global Note as shown on the records of DTC or its nominee. The Issuer also expects that payments by DTC Participants to owners of beneficial interests in such global Note held through such DTC Participants will be governed by standing instructions and customary practices, as is now the case with securities held for the accounts of customers registered in the names of nominees for such customers. Such payments will be the responsibility of such DTC Participants.

Transfers between DTC Participants will be effected in accordance with DTC rules and procedures and will be settled in same-day funds. Transfers between participants in Euroclear and Clearstream will be effected in accordance with their respective rules and procedures.

The laws of some states require that certain persons take physical delivery of securities in definitive form. Consequently, the ability to transfer beneficial interests in a global Note to such persons may be limited because DTC can only act on behalf of DTC Participants, who in turn act on behalf of indirect participants and certain banks. Accordingly, the ability of a person having a beneficial interest in a global Note to pledge such interest to persons or entities that do not participate in the DTC system, or otherwise take actions in respect of each interest, may be affected by the lack of a physical certificate for such interest.

Subject to compliance with the transfer restrictions applicable to the Notes described above and under “Notice to Investors,” cross-market transfers between DTC, on the one hand, and directly or indirectly through Euroclear or Clearstream participants, on the other, will be effected in DTC in accordance with DTC rules and procedures on behalf of Euroclear or Clearstream, as the case may be, by its respective depository; however, such cross-market transactions will require delivery of instructions to Euroclear or Clearstream, as the case may be, by the counterparty in such system in accordance with its rules and procedures and within its established deadlines (Brussels, Belgium time). Euroclear or Clearstream, as the case may be, will, if the transaction meets its settlement requirements, deliver instructions to its respective depository to take action to effect final settlement on its behalf by delivering or receiving interests in Regulation S Global Notes in DTC, and making or receiving payment in accordance with normal procedures for same-day funds settlement applicable to DTC. Euroclear participants and Clearstream participants may not deliver instructions directly to the depositories for Euroclear or Clearstream.

Because of time zone differences, the securities account of a Euroclear or Clearstream participant purchasing an interest in a global Note from a DTC Participant will be credited during the securities settlement processing day (which must be a business day for Euroclear or Clearstream, as the case may be) immediately following the DTC settlement date, and the credit of any transactions in interests in a global Note settled during such processing will be reported to the relevant Euroclear or Clearstream participant on such day. Cash received in Euroclear or Clearstream as a result of sales of interests in a global Note by or through a Euroclear or Clearstream participant to a DTC Participant will be received with value on the DTC settlement date but will be available in the relevant Euroclear or Clearstream cash account only as of the business day following settlement in DTC.

In order to ensure the availability of Rule 144(k) under the Securities Act, the Indenture will provide that all Notes which are purchased or otherwise acquired by the Issuer or any of its Subsidiaries may not be resold or otherwise transferred.

DTC has advised the Issuer that it will take any action permitted to be taken by a holder of Notes (including, without limitation, the presentation of Notes for transfer, exchange or conversion as described below) only at the direction of one or more DTC Participants to whose account with DTC interests in the Global Notes are credited and only in respect of such portion of the aggregate principal amount of the Notes as to which such Participant or Participants has or have given such direction. However, in the limited circumstances described herein, DTC will exchange the Global Notes for certificated Notes in definitive form, which it will distribute to DTC Participants and which, if representing interests in the Restricted Global Note, will be legended as set forth under “Notice to Investors.” See “—Certificated Notes.”

DTC has advised the Issuer as follows: DTC will act as the depository for the Notes. The Notes will be issued as fully registered senior notes registered in the name of Cede & Co., which is DTC’s partnership nominee. Fully registered Global Notes will be issued for the Notes, in the aggregate principal amount of the issue, and will be deposited with DTC.

DTC is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Exchange Act. DTC holds securities that its participants deposit with DTC. DTC also facilitates the settlement among participants of securities transactions, including transfers and pledges, in deposited securities through electronic computerized book-entry changes to participants’ accounts, thereby eliminating the need for physical movement of certificates. Direct participants of DTC include securities brokers and dealers, including the initial purchasers of the Notes, banks, trust companies, clearing corporations and certain other organizations. DTC is owned by a number of its direct participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc., and the National Association of Securities Dealers, Inc. Access to DTC’s system is also available to indirect participants, which includes securities brokers and dealers, banks and trust companies that clear through or maintain a custodial relationship with a direct participant, either directly or indirectly. The rules applicable to DTC and its participants are on file with the SEC.

To facilitate subsequent transfers, all Global Notes representing the Notes which are deposited with, or on behalf of, DTC are registered in the name of DTC's nominee, Cede & Co. The deposit of Global Notes with, or on behalf of, DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual beneficial owners of the Global Notes representing the Notes; DTC's records reflect only the identity of the direct participants to whose accounts the Notes are credited, which may or may not be the beneficial owners. The participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to direct participants, by direct participants to indirect participants, and by direct and indirect participants to beneficial owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Neither DTC nor Cede & Co. will consent or vote with respect to the Global Notes representing the Notes. Under its usual procedure, DTC mails an omnibus proxy to the Issuer as soon as possible after the applicable record date. The omnibus proxy assigns Cede & Co.'s consenting or voting rights to those direct participants to whose accounts the Notes are credited on the applicable record date (identified in a listing attached to the omnibus proxy).

DTC may discontinue providing its services as securities depository with respect to the Notes at any time by giving reasonable notice to the Issuer or the Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, certificated Notes are required to be printed and delivered. See "—Certificated Notes."

The Issuer may decide to discontinue use of the system of book-entry transfers through DTC or a successor securities depository. In that event, certificated Notes will be printed and delivered. See "—Certificated Notes."

Although DTC, Euroclear and Clearstream have agreed to the procedures described above in order to facilitate transfers of interests in the Global Notes among participants of DTC, Euroclear and Clearstream, they are under no obligation to perform or continue to perform these procedures, and these procedures may be discontinued at any time. Neither the Trustee nor the Issuer will have any liability or responsibility for the performance by DTC, Euroclear or Clearstream or their respective participants or indirect participants of their respective obligations under the rules and procedures governing their operations.

Certificated Notes

If (i) DTC is at any time unwilling or unable to continue as a depository for the Global Notes and a successor depository is not appointed by the Issuer within 90 days or (ii) an Event of Default shall have occurred and be continuing and the beneficial holder of a Note shall have requested that the Issuer issue to such beneficial holder its proportionate interest in a global Note, the Issuer will issue certificated Notes which may bear the legend referred to under "Notice to Investors," in exchange for the Global Notes. Holders of an interest in a global Note may receive certificated Notes, which may bear the legend referred to under "Notice to Investors," in accordance with DTC's rules and procedures in addition to those provided for under the Indenture; *provided, however*, that if the Issuer is issuing certificated Notes pursuant to clause (ii) above, the Issuer shall only be required to issue certificated Notes to the beneficial owners of the Notes who request certificated Notes.

The Holder of a definitive Note may transfer such Note by surrendering it at the office or agency maintained by the Issuer for such purpose in the Borough of Manhattan, New York City, New York, which initially will be the office of the Trustee. Upon the transfer, exchange or replacement of definitive Notes bearing the legend, or upon specific request for removal of the legend on a definitive Note, the Issuer will deliver only definitive Notes that bear such legend, or will refuse to remove such legend, as the case may be, unless there is delivered to the Issuer such satisfactory evidence, which may include an opinion of counsel, as may reasonably be required by the Issuer, that neither the legend nor the restrictions on transfer set forth therein are required to ensure compliance with the provisions of the Securities Act.

Neither the Trustee, the Principal Paying Agent, the Luxembourg Paying Agent nor any other paying agent, registrar or transfer agent shall be required to register the transfer of or exchange definitive Notes for a period from the record date to the due date for any payment of principal of, or interest on, the Notes or register the transfer of or exchange any Notes for 15 days prior to selection for redemption through the date of redemption. For so long as the Notes are listed on the Official List of the Luxembourg Stock Exchange and the rules of such exchange so requires, in the case of a transfer or exchange of definitive registered Notes, a holder thereof may effect such transfer or exchange by presenting and surrendering such Notes at, and obtaining new definitive registered Notes from the office of the Luxembourg Transfer Agent. In the case of a transfer of only part of a definitive registered Note, a new definitive Note in respect of the balance of the principal amount of the definitive registered Note transferred will be delivered at the office of the

Luxembourg Transfer Agent, and in the case of any lost, stolen, mutilated or destroyed definitive registered Note, a holder thereof may obtain a new definitive registered Note from the Luxembourg Transfer Agent.

Prior to presentment of a Note for registration of transfer (including a global Note), the Issuer, the Trustee and any agent of the Issuer or the Trustee may treat the person in whose name such Note is registered as the owner or holder of such Note for the purpose of receiving payment of principal, interest and any Additional Amounts on such Note and for all other purposes whatsoever, whether or not such Note is overdue, and none of the Issuer, the Trustee or any agent of the Issuer shall be affected by notice to the contrary.

Defeasance

The Issuer, at its option:

- (1) will be discharged from any and all obligations in respect of the Notes (except for certain obligations, including to register the transfer or exchange of Notes, replace stolen, lost or mutilated Notes, maintain paying agencies and hold moneys for payment in trust), or
- (2) need not comply with certain covenants of the Indenture,

if the Issuer irrevocably deposits with the Trustee, in trust:

- cash in U.S. dollars, or
- in certain cases, U.S. Government Obligations which through the payment of interest and principal in respect thereof in accordance with their terms will provide money in an amount, or
- a combination thereof,

in each case, sufficient to pay and discharge the principal and interest, if any, on the outstanding Notes on the dates such payments are due, in accordance with the terms of the Notes, to and including the redemption date irrevocably designated by the Issuer pursuant to the final sentence of this section on the day on which payments are due and payable in accordance with the terms of the Indenture and of the Notes; and no Default or Event of Default (including by reason of such deposit) shall have occurred and be continuing on the date of such deposit or during the period ending on the 91st day after such date.

To exercise any such option, the Issuer is required to deliver to the Trustee:

- (a) an opinion of recognized U.S. counsel independent of the Issuer to the effect:
 - that the holders of the Notes will not recognize income, gain or loss for federal income tax purposes as a result of such deposit, defeasance and discharge of certain obligations, which in the case of clause (1) above must be based on a change in law or a ruling by the U.S. Internal Revenue Service; and
 - that the defeasance trust is not, or is registered as, an investment company under the Investment Company Act of 1940; and
- (b) an opinion of counsel and an Officers' Certificate as to compliance with all conditions precedent provided for in the Indenture relating to the satisfaction and discharge of the Notes.

If the Issuer has deposited or caused to be deposited money or U.S. Government Obligations to pay or discharge the principal of and interest, if any, on the outstanding Notes to and including a redemption date on which all of the outstanding Notes are to be redeemed, such redemption date shall be irrevocably designated by a resolution of the Board of Directors of the Issuer delivered to the Trustee on or prior to the date of deposit of such money or U.S. Government Obligations, and such resolution shall be accompanied by an irrevocable request by the Issuer that the Trustee give notice of such redemption in the name and at the expense of the Issuer not less than 30 nor more than 60 days prior to such redemption date in accordance with the Indenture.

Governing Law; Consent to Jurisdiction and Service of Process

The Indenture and the Notes provide that they will be governed by, and construed in accordance with, the laws of the State of New York. The Issuer has consented to the jurisdiction of the courts of the State of New York and the United States courts located in the Borough of Manhattan, New York City, New York with respect to any action that may be brought in connection with the Indenture or the Notes and has irrevocably appointed National Corporate Research, Ltd., as agent for service of process.

If for the purpose of obtaining judgment in any court it is necessary to convert a sum due hereunder to the holder of a Note from U.S. dollars into another currency, the Issuer has agreed, and each holder by holding such Note will be deemed to have agreed, to the fullest extent that the Issuer and they may effectively do so, that the rate of exchange used shall be that at which in accordance with normal banking procedures such holder could purchase U.S. dollars with such other currency in New York City, New York on the day two Business Days preceding the day on which final judgment is given.

The Issuer's obligation in respect of any sum payable by it to the holder of a Note shall, notwithstanding any judgment in a currency (the "judgment currency") other than U.S. dollars, be discharged only to the extent that on the Business Day following receipt by the holder of such Note of any sum adjudged to be so due in the judgment currency, the holder of such Note may in accordance with normal banking procedures purchase U.S. dollars with the judgment currency; if the amount of the U.S. dollars so purchased is less than the sum originally due to the holder of such Note in the judgment currency (determined in the manner set forth in the preceding paragraph), the Issuer agrees, as a separate obligation and notwithstanding any such judgment, to indemnify the holder of such Note against such loss, and if the amount of the U.S. dollars so purchased exceeds the sum originally due to the holder of such Note, such holder agrees to remit to the Issuer such excess, *provided* that such holder shall have no obligation to remit any such excess as long as the Issuer shall have failed to pay such holder any obligations due and payable under such Note, in which case such excess may be applied to the Issuer's obligations under such Note in accordance with the terms thereof.

Miscellaneous

On the Closing Date, the Trustee shall authenticate and deliver the Notes pursuant to the terms of the Indenture. Until definitive Notes are ready for delivery, the Issuer may prepare and the Trustee shall authenticate temporary Notes. Temporary Notes shall be substantially in the form of definitive Notes but may have variations that the Issuer considers appropriate for temporary Notes. Without unreasonable delay, the Issuer shall prepare and the Trustee shall authenticate definitive Notes and deliver them in exchange for temporary Notes.

If money for the payment of principal or interest remains unclaimed for two years, the Trustee or the paying agents shall pay the money back to the Issuer at its request unless an applicable abandoned property law designates another Person. After any such payment, holders of Notes entitled to the money must look only to the Issuer and not to the Trustee for payment.

The Trustee may make reasonable rules for action by or a meeting of holders of Notes.

Certain Definitions

Set out below is a summary of certain of the defined terms used in the Indenture. Reference is made to the Indenture for the full definition of all such terms as well as any other capitalized terms used herein for which no definition is provided. Unless the context otherwise requires, an accounting term not otherwise defined has the meaning assigned to it under and in accordance with Brazilian GAAP.

"Acquired Indebtedness" means Indebtedness of a Person existing at the time the Person merges with or into or becomes a Subsidiary of the Issuer and not Incurred in connection with, or in contemplation of, the Person merging with or into or becoming a Subsidiary of the Issuer.

"Additional Assets" means:

- (1) any property or assets (other than Indebtedness) to be used by the Issuer or of its Subsidiaries in a Related Business;
- (2) the Capital Stock of a Person that becomes a Subsidiary of the Issuer as a result of the acquisition of such Capital Stock by the Issuer or another Subsidiary of the Issuer; or

(3) Capital Stock constituting a minority interest in any Person that at such time is a Subsidiary of the Issuer;

provided, however, that any such Subsidiary described in clause (2) or (3) above is primarily engaged in a Related Business.

“Affiliate” of any specified Person means any other Person, directly or indirectly, controlling or controlled by or under common control with such specified Person. For the purposes of this definition, “control,” when used with respect to any Person, means the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms “controlling” and “controlled” have meanings correlative to the foregoing.

“BNDES” means the Banco Nacional de Desenvolvimento Econômico e Social – BNDES.

“Board of Directors” means, with respect to any Person, the board of directors or other equivalent body of such Person or any committee thereof duly authorized to act on behalf of the board of directors or other equivalent body of such Person, including any managing partner or similar entity of such Person.

“Brazil” means The Federative Republic of Brazil and any branch of power, ministry, department, authority or statutory corporation or other entity (including a trust) owned or controlled directly or indirectly by it or any of the foregoing or created by law as a public entity.

“Business Day” means each day that is not a Saturday, Sunday or other day on which banking institutions in New York City, New York or São Paulo, SP, Brazil are required by applicable law to remain closed.

“Capital Stock” of any Person means any and all shares, interests, rights to purchase, warrants, options, participations or other equivalents of or interests in (however designated) equity of such Person, excluding any debt securities convertible or exchangeable into such equity.

“Capitalized Lease Obligation” means, with respect to any Person, an obligation that is required to be classified and accounted for as a capital lease on the face of a balance sheet of such Person prepared in accordance with Brazilian GAAP.

“Cash Equivalents” means:

- (1) any investment in direct obligations of the United States or any agency thereof or obligations guaranteed by the United States or any agency thereof;
- (2) investments in demand and time deposit accounts, certificates of deposit and money market deposits maturing within one year of the date of deposit or acquisition thereof issued by a bank or trust company which is organized under the laws of the United States, any state, commonwealth or territory thereof or any foreign country recognized by the United States, and which bank or trust company has capital, surplus and undivided profits aggregating in excess of US\$50.0 million (or the foreign currency equivalent thereof) and has outstanding debt which is rated “A” (or such similar equivalent rating) or higher by at least one nationally recognized statistical rating organization (as defined in section 3(a)(62) of the Exchange Act) or any money market fund sponsored by a registered broker dealer or mutual fund distributor;
- (3) investments in repurchase obligations with a term of not more than 30 days for underlying securities of the types described in clause (1) above entered into with a bank meeting the qualifications described in clause (2) above;
- (4) investments in commercial paper, maturing not more than one year after the date of acquisition, issued by a corporation (other than an Affiliate of the Issuer) organized and in existence under the laws of the United States, any state, commonwealth or territory thereof, or any foreign country recognized by the United States with a rating at the time as of which any investment therein is made of “P-1” (or higher) by Moody’s or “A-1” (or higher) by S&P (or such similar equivalent rating);
- (5) investments in securities with maturities of one year or less from the date of acquisition thereof issued or fully guaranteed by any state, commonwealth or territory of the United States, or by any political subdivision or taxing authority thereof, and are rated at least “A” by S&P or “A” by Moody’s (or such similar equivalent rating); and

- (6) investments in money market funds that invest substantially all their assets in securities of the types described in clauses (1) through (5) above.

“CCEE” means the Energy Trading Chamber (Câmara de Comercialização de Energia Elétrica) or any successor or replacement thereof.

“CELPA Concession” means the distribution and generation concessions granted to CELPA pursuant to the concession agreements entered into with ANEEL, dated July 28, 1998.

“CELPA Shares” means (a) 6,061,792,000 common shares of CELPA, 300,732,571 class A preferred shares of CELPA and 90,467,813 class C preferred shares of CELPA owned by the Issuer, and (b) 32,656,150,603 common shares of CELPA, 45,394,588 class A preferred shares of CELPA and 25,465,398 class C preferred shares of CELPA owned by QMRA Participações S.A.

“CELTINS Shares” means 192,631,908 common shares of CELTINS owned by the Issuer.

“CEMAT Concession” means the distribution and generation concessions granted to CEMAT pursuant to the concession agreements entered into with ANEEL, dated December 11, 1997.

“Change of Control” means the occurrence of any of the following:

- (1) any Person (other than a Permitted Holder) directly or indirectly acquires a majority of the Voting Stock of the Issuer;
- (2) occupation of an absolute majority of the seats on the board of directors (*conselho de administração*) of the Issuer by Persons who were not nominated by a Permitted Holder;
- (3) the adoption of a plan by the Issuer relating to its liquidation or dissolution; and
- (4) the Permitted Holders fail to own at least a 50.0% of the Voting Stock of the Issuer.

“Closing Date” means April 2, 2007.

“Currency Agreement” means, with respect to any Person, any foreign exchange contract, currency swap agreement or other similar agreement or arrangement to which such Person is a party or of which it is a beneficiary.

“Default” means any event which is, or after notice or passage of time or both would be, an Event of Default.

“EBITDA” means, for any period, the amount equal to the sum (without duplication) of: (i) the consolidated operating income (excluding financial income and expenses) of the Issuer and its Subsidiaries and (ii) all amounts attributable to depreciation and amortization, for such period and determined in accordance with Brazilian GAAP.

“Energy Hedge Agreement” means, with respect to any Person, any agreement relating to any swap, option, exchange, forward sale, forward purchase, index transaction, cap transaction, floor transaction, collar transaction or any other similar transaction, in each case, for purposes of hedging or capping against the price of energy (including capacity, energy and ancillary services).

“Exchange Act” means the United States Securities and Exchange Act of 1934, as amended.

“Fair Market Value” of any asset means:

- (1) on any date, the fair market value of such asset on that date as determined in good faith by the management of the Issuer or any of its applicable Subsidiaries; and
- (2) on any date, the fair market value of such asset on that date as determined in good faith by the Board of Directors if the by-laws, charter or similar organizational documents of the Issuer, or any of its applicable Subsidiaries, so require and evidenced by a resolution thereof set forth in an Officers’ Certificate delivered to the Trustee.

“Fitch” means Fitch Ratings Ltd. and its successors.

“Guarantee” means (1) any obligation, contingent or otherwise, of any Person directly or indirectly guaranteeing any Indebtedness or other obligation of any other Person, and (2) any obligation, direct or indirect, contingent or otherwise, of any Person:

- (a) to purchase or pay (or advance or supply funds for the purchase or payment of) such Indebtedness or other obligation of such other Person (whether arising by virtue of partnership arrangements, or by agreement to keep-well, to purchase assets, goods, securities or services, to take-or-pay, or to maintain financial statement conditions or otherwise); or
- (b) entered into for purposes of assuring in any other manner the obligee of such Indebtedness or other obligation of the payment thereof or to protect such obligee against loss in respect thereof (in whole or in part),

provided, however, that the term “Guarantee” shall not include endorsements for collection or deposit in the ordinary course of business. The term “Guarantee” used as a verb has a correlative meaning. The term “Guarantor” shall mean any Person Guaranteeing any obligation.

“Hedging Agreement” means any Interest Rate Agreement, Currency Agreement, Energy Hedge Agreement or Inflation Hedge Agreement.

“Incur” means issue, assume, Guarantee, incur or otherwise become liable for; *provided, however*, that any Indebtedness of a Person existing at the time such Person is merged or consolidated with the Issuer or becomes a Subsidiary of the Issuer (whether by merger, consolidation, acquisition or otherwise) shall be deemed to be Incurred by such Person at the time of such merger or consolidation or at the time it becomes a Subsidiary of the Issuer. The term “Incurrence” when used as a noun shall have a correlative meaning. Neither the accretion of principal of a non-interest bearing or other discount security nor the capitalization of interest on Indebtedness shall be deemed the Incurrence of Indebtedness.

“Indebtedness” means, with respect to any Person on any date of determination (without duplication):

- (1) all indebtedness of such Person for borrowed money, including all indebtedness included on the balance sheet of such Person prepared in accordance with Brazilian GAAP issued by a trust or special purpose vehicle which is secured by Receivables;
- (2) all obligations of such Person evidenced by bonds, debentures, notes or other similar instruments;
- (3) all obligations of such Person in respect of letters of credit, bankers’ acceptances or other similar instruments, excluding obligations in respect of trade letters of credit or bankers’ acceptances issued in respect of trade accounts payable to the extent not drawn upon or presented, or, if drawn upon or presented, to the extent the resulting obligation of such Person is paid in accordance with its respective terms;
- (4) all obligations of such Person to pay the deferred and unpaid purchase price of property or services, all conditional sale obligations and all obligations of such person under any title retention agreement, excluding trade accounts payable arising in the ordinary course of business;
- (5) all obligations of such Person as lessee under Capitalized Lease Obligations;
- (6) all Indebtedness of other Persons guaranteed by such Person to the extent so guaranteed;
- (7) all Indebtedness of other Persons secured by a Lien on any asset of such Person, whether or not such Indebtedness is assumed by such Person;
- (8) all obligations of such Person under Hedging Agreements; and
- (9) all obligations of the type referred to in clauses (1) through (8) above of other Persons for the payment of which such Person is responsible or liable, directly or indirectly, as obligor, Guarantor or otherwise, including by means of any Guarantee;

provided that, notwithstanding the foregoing, “Indebtedness” shall not include any obligations of the Issuer or any of its Subsidiaries with respect to the *Programa de Recuperação Fiscal* (REFIS); the *Parcelamento Especial* (PAES); the *Parcelamento Exceptional* (PAEX); the *Instituto Nacional do Seguro Social* (INSS); the *Imposto sobre Circulação de Mercadorias e Serviços* (ICMS); the *Fundo Nacional de Desenvolvimento e Educação* (FNDES); the *Reserva Global de Reversão* (RGR); the *Conta de Consumo de Combustíveis – CCC*; the *Compensação Financeira pela Utilização de Recursos Hídricos*; the *Taxa de Fiscalização de Serviços de Energia Elétrica – TFSEE*, the *Conta de Desenvolvimento Energético – CDE*; the *Encargo de Capacidade Emergencial – ECE* and *Fundo Nacional de Desenvolvimento Científico e Tecnológico – FNDCT*; the payments arising out of any court-approved settlement with respect to litigation related to the Bresser Plan; any other tax liabilities; any Unfunded Pension Obligations; and any obligation under contracts for the supply, transmission, connection and transportation of energy.

“Inflation Hedge Agreement” means, with respect to any Person, any agreement relating to any swap, option, forward sale, forward purchase, index transaction, cap transaction, floor transaction, collar transaction or any other similar transaction, in each case, for purposes of hedging or capping against Brazilian inflation (including by reference to the rate of Brazilian inflation and SELIC).

“Interest Payment Date” means each January 2, April 2, July 2, and October 2 of each year, commencing on July 2, 2007.

“Interest Rate Agreement” means, with respect to any Person, any interest rate protection agreement, interest rate future agreement, interest rate option agreement, interest rate swap agreement, interest rate cap agreement, interest rate collar agreement, interest rate hedge agreement or other similar agreement or arrangement to which such Person is a party or a beneficiary.

“Interest Reserve Account Pledge Agreement” means the Pledge and Security Agreement by and among the Issuer, the Trustee and The Bank of New York, as custodian, dated April 2, 2007.

“Investment Grade Rating” means a rating equal to or higher than (a) BBB-, by S&P or Fitch and (b) Baa3, by Moody’s.

“Lien” means any mortgage, pledge, security interest, encumbrance, lien or other charge of any kind.

“Moody’s” means Moody’s Investors Service, Inc., and its successors.

“Net Available Cash” from a sale, lease, transfer or disposition of CELPA Shares or CELTINS Shares means cash payments received (including any cash payments received by way of deferred payment of principal pursuant to a note or installment receivable or otherwise and proceeds from the sale or other disposition of any securities received as consideration, but only as and when received, but excluding any other consideration received in the form of assumption by the acquiring Person of Indebtedness or other obligations relating to the properties or assets that are the subject of such sale, lease, transfer or disposition or received in any other non-cash form) therefrom, in each case *minus*:

- (1) all legal fees and expenses, title and recording tax expenses, commissions and other fees and expenses Incurred, and all federal, state, provincial, foreign and local taxes required to be paid or accrued as a liability in accordance with Brazilian GAAP, as a consequence of such sale, lease, transfer or disposition;
- (2) all payments, including any prepayment premiums or penalties, made on any Indebtedness that is secured by any assets subject to such sale, lease, transfer or disposition, in accordance with the terms of any Lien upon or other security agreement of any kind with respect to such assets, or which must by its terms, or in order to obtain a necessary consent to such sale, lease, transfer or disposition, or by applicable law be repaid out of the proceeds from such sale, lease, transfer or disposition;
- (3) all distributions and other payments required to be made to minority interest holders in Subsidiaries of the Issuer or joint ventures as a result of such sale, lease, transfer or disposition; and
- (4) appropriate amounts to be provided by the seller as a reserve, in accordance with Brazilian GAAP, against any liabilities associated with the property or other assets disposed of in such sale, lease, transfer or disposition and retained by the Issuer or any of its Subsidiaries after such sale, lease, transfer or disposition.

“Net Indebtedness” means, as of any date of determination, the aggregate amount of Indebtedness of the Issuer and its Subsidiaries on a consolidated basis less the sum of consolidated cash and cash equivalents and consolidated marketable securities, in all cases determined in accordance with Brazilian GAAP.

“Net Indebtedness to EBITDA Ratio” means, on any date of determination, the ratio of:

- (x) the aggregate amount of Net Indebtedness at the date of determination, to
- (y) EBITDA for the four fiscal quarters immediately prior to the date of determination for which financial statements are available (the “reference period”).

In making the foregoing calculation, *pro forma* effect will be given to (i) the acquisition or disposition of companies, divisions or lines of businesses by the Issuer and its Subsidiaries, including any acquisition or disposition of a company, division or line of business since the beginning of the reference period, and (ii) the Incurrence, repayment or other discharge of Indebtedness since the beginning of the reference period.

“Officers’ Certificate” means a certificate signed by any two of the Chief Executive Officer, the Chief Operating Officer, the Chief Financial Officer, the Chief Accounting Officer or the General Counsel of the Issuer or any of its Subsidiaries, as the case may be.

“Operating Subsidiary Concession” means the CEMAT Concession and the CELPA Concession.

“Permitted Financial Institution” means (a) any commercial bank organized under the laws of (i) the United States or any state or commonwealth thereof or (ii) any member country of the Organization for Economic Co-operation and Development (an “OECD Bank”), in each case which has a combined capital and surplus and undivided profits of at least US\$100.0 million, and (b) any Brazilian financial institution, so long as the local national scale rating of such Person is “AA-” or higher by S&P or Fitch and “Aa” or higher by Moody’s, including, in the case of clauses (a) and (b) above, any branch or wholly owned Subsidiary thereof.

“Permitted Holders” means:

- (1) Jorge Queiroz de Moraes, Jr., or any of his spouse and descendants (whether natural or adopted), any of his or their legal heirs (or similar legal successors upon death), or any Affiliate or Affiliates of any of the foregoing that beneficially collectively own 50.1% of the Voting Stock of the Issuer; and
- (2) any Person the Voting Stock of which (or in the case of a trust, the beneficial interests in which) are owned 80% or more by the Persons specified in clause (a).

“Person” means any individual, corporation, partnership, limited liability company, joint venture, unincorporated association, joint-stock company, trust or any other entity, including a government or any agency or political subdivision thereof.

“Process Agent” means National Corporate Research, Ltd., and its successors.

“Purchase Money Obligations” means Indebtedness:

- (1) consisting of the deferred purchase price of an asset, conditional sale obligations, obligations under any title retention agreement and other purchase money obligations, in each case where the maturity of such Indebtedness does not exceed the anticipated useful life of the asset being financed; and
- (2) Incurred to finance the acquisition by the Issuer or any of its Subsidiaries of such asset, including additions and improvements.

“Rating Agency” means S&P, Fitch or Moody’s; or if S&P, Fitch or Moody’s are not making ratings of the Notes publicly available, an internationally recognized U.S. rating agency or agencies, as the case may be, selected by the Issuer, which shall be substituted for S&P, Fitch or Moody’s or any of them, as the case may be.

“Rating Decline” means that at any time within 90 days (which period shall be extended so long as the rating of the Notes is under publicly announced consideration for possible down grade by either Rating Agency) after the date of

public notice of a Change of Control, or of the Company's intention or that of any Person to effect a Change of Control, the then-applicable rating of the Notes is decreased by either Rating Agency by one or more categories; *provided* that any such Rating Decline is in whole or in part in connection with a Change in Control.

"Receivables" means all rights of the Issuer or any of its Subsidiaries to payments (whether constituting accounts, chattel paper, instruments, general intangibles or otherwise, and including the right to payment of any interest or finance charges), which rights are identified (or, in the case of future rights to payments, are expected to be identified) in the accounting records of the Issuer or such Subsidiary as accounts receivable.

"Related Business" means any business conducted by the Issuer or any of its Subsidiaries on the Closing Date (including, without limitation, electricity distribution in Brazil) and any business related, ancillary or complementary thereto (including, without limitation, the energy generation, transmission and distribution business and any financing thereof).

"S&P" means Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies Inc., and its successors.

"SEC" means the United States Securities and Exchange Commission.

"SELIC" means, as of any date, the interest rate published on such date by the Central Bank based on the average rate of financing transactions registered in the Clearing and Custody System (*Sistema Especial de Liquidação e Custódia – SELIC*).

"Senior Indebtedness" means all unsubordinated Indebtedness of the Issuer or of any of its Subsidiaries, whether outstanding on the Closing Date or Incurred thereafter.

"Significant Subsidiary" means any Subsidiary of the Issuer that would be a "Significant Subsidiary" of the Issuer within the meaning of Rule 1-02 under Regulation S-X promulgated by the SEC.

"Sinking Fund Account Pledge Agreement" means a Pledge and Security Agreement by and among the Issuer, the Trustee and The Bank of New York, as custodian, in the form attached to the Indenture.

"Sinking Fund Payment Amount" means an amount equal to 8.33% of the principal amount of the Notes outstanding as of the first Interest Payment Date after the occurrence of a Sinking Fund Triggering Event.

"Sinking Fund Triggering Event" means (a) the failure of CEMAT to file a request for an extension of the CEMAT Concession with ANEEL and any other relevant Brazilian regulatory authorities at least three years prior to the scheduled expiration date of the CEMAT Concession or any rejection of such a request by a meeting of the board of executive officers of ANEEL or any other Brazilian regulatory authority required to approve such request or (b) the failure of CELPA to file a request for an extension of the CELPA Concession with ANEEL and any other relevant Brazilian regulatory authorities at least three years prior to the scheduled expiration date of the CELPA Concession or rejection of such a request by a meeting of the board of executive officers of ANEEL or any other Brazilian regulatory authority required to approve such request.

"Stated Maturity" means with respect to any Indebtedness, the date specified as the fixed date on which the final installment of principal of such Indebtedness is due and payable.

"Subsidiary" means, with respect to any Person (the "parent") at any date, (1) any corporation, limited liability company, partnership, unincorporated association or other business entity the accounts of which would be consolidated with those of the parent in the parent's consolidated financial statements if such financial statements were prepared in accordance with Brazilian GAAP as of such date, and (2) any other corporation, limited liability company, partnership, unincorporated association or other business entity of which securities or other ownership interests representing more than 50% of the Voting Stock or, in the case of a partnership, more than 50% of the general partnership interests are, as of such date, owned by (a) the parent, (b) one or more Subsidiaries of the parent, or (c) the parent and one or more Subsidiaries of the parent.

"Temporary Cash Investments" means any of the following:

- (1) any investment in direct obligations of the United States or any agency thereof or obligations Guaranteed by the United States or any agency thereof;

- (2) investments in time deposit accounts, certificates of deposit and money market deposits (collectively, “Deposit Accounts”) issued by a bank or trust company that is organized under the laws of the United States, any state, commonwealth or territory thereof, Brazil, any state thereof or any foreign country recognized by the United States and which bank or trust company has capital, surplus and undivided profits aggregating in excess of US\$50.0 million (or the foreign currency equivalent thereof) and whose long-term debt is rated “A” (or such similar equivalent rating, including similar equivalent ratings in foreign countries) or higher by at least one nationally recognized statistical rating organization (as defined in section 3(a)(62) under the Exchange Act) or any money market fund sponsored by a registered broker or mutual fund distributor;
- (3) investments in repurchase obligations with a term of not more than 30 days for underlying securities of the types described in clause (1) above entered into with a bank meeting the qualifications described in clause (2) above;
- (4) investments in commercial paper issued by (i) a corporation (other than an Affiliate of the Issuer) organized and in existence under the laws of the United States, any state, commonwealth or territory thereof, Brazil or any other foreign country recognized by the United States with a rating at the time as of which any investment therein is made of “P-1” (or higher) by Moody’s or “A-1” (or higher) by S&P (or such similar equivalent rating, including similar equivalent ratings in foreign countries), or (ii) any Permitted Financial Institution;
- (5) investments in securities with maturities of twenty-four months or less from the date of acquisition issued or fully Guaranteed by any state, commonwealth or territory of the United States, or by any political subdivision or taxing authority thereof, and rated at least “A” by S&P or “A” by Moody’s (or such similar equivalent rating);
- (6) investments in securities with maturities of twenty-four months or less from the date of acquisition issued or fully Guaranteed by Brazil;
- (7) Deposit Accounts issued or guaranteed by or placed with, and money market deposit accounts issued or offered by, any Brazilian or United States office of any Permitted Financial Institution;
- (8) investments in money market funds substantially all the assets of which are comprised of investments of the types described in clauses (1) through (6) above; and
- (9) in addition to the investments permitted pursuant to clauses (1) through (8) above, other investments in (i) Deposit Accounts and banker’s acceptances issued or guaranteed by or placed with a bank or trust company that is organized under the laws of the United States, any state, commonwealth or territory thereof, Brazil, any state thereof or any foreign country recognized by the United States having capital, surplus and undivided profits aggregating in excess of US\$20.0 million (or the foreign currency equivalent thereof) and that meet minimum capital requirements of any regulatory or governmental authorities with jurisdiction over such bank or trust company, and further, in the case of a Person organized under the laws of or operating in Brazil, which is a financial institution duly authorized by the Central Bank and (ii) investments in securities or commercial paper issued by a corporation or business entity (other than an Affiliate of the Issuer) organized and in existence under the laws of the United States, any state, commonwealth or territory thereof, Brazil or any other foreign country recognized by the United States (including, without limitation, any Permitted Financial Institution); provided, that if such securities or commercial paper are given ratings by Moody’s or S&P, such securities or commercial paper shall be required to have a rating at the time as of which any investment therein is made of “P-1” (or higher) by Moody’s or “A-1” (or higher) by S&P (or such similar equivalent rating, including similar equivalent ratings in foreign countries); provided further, that the amounts invested under this clause (9) shall not exceed, with respect to any such Person, R\$150 million as adjusted to reflect variations in the IGP-M following the Closing Date, and with respect to all such Persons, R\$450 million as adjusted to reflect variations in the IGP-M following the Closing Date.

“Unfunded Pension Obligations” means all unfunded pension fund obligations of the type included in the notes to the Issuer’s consolidated financial statements as of December 31, 2006 and recorded on its consolidated balance sheet pursuant to CVM Resolution No. 371, dated as of December 13, 2000, including all obligations of (a) CELPA under the *Instrumento Particular de Confissão de Dívida com Garantia* between *Fundação Grão Pará de Previdência e Assistência Social* - FUNGRAPA (currently known as REDEPREV – *Fundação Rede de Previdência*) and CELPA and (b) CEMAT under the *Termos de Transação com Interveniência Ajustado à Resolução CGPC/SPS/MPAS No. 17/96*, entered into on November 7, 1996 between PREVIMAT —*Fundação de Previdência e Assistência Social dos Empregados das Centrais Elétricas Matogrossenses* - CEMAT (currently known as REDEPREV - *Fundação Rede de Previdência*) and CEMAT, in each case, as the same may be amended, amended and restated, supplemented, modified or replaced from time to time.

“United States” means United States of America.

“U.S. Government Obligations” means direct obligations (or certificates representing an ownership interest in such obligations) of the United States (including any agency or instrumentality thereof) for the payment of which the full faith and credit of the United States is pledged and that are not callable or redeemable at the issuer’s option.

“Voting Stock” of a Person means all classes of Capital Stock of such Person then outstanding and normally entitled (without regard to the occurrence of any contingency) to vote in the election of directors, managers or other voting members of the governing body of such Person.

TAXATION

The following discussion summarizes certain Brazilian, U.S. federal income and European Union tax considerations that may be relevant to you if you invest in the notes. This summary is based on laws and regulations now in effect in Brazil, laws, regulations, rulings and decisions now in effect in the United States, and a directive of the European Union, in each case which may change. Any change could apply retroactively and could affect the continued validity of this summary.

This summary does not describe all of the tax considerations that may be relevant to you or your situation, particularly if you are subject to special tax rules. You should consult your tax advisors about the tax consequences of holding the notes, including the relevance to your particular situation of the considerations discussed below, as well as of state, local and other tax laws.

Brazilian Taxation

The following discussion is a general description of certain Brazilian tax aspects of the notes applicable to an individual, entity, trust or organization resident or domiciled outside Brazil for tax purposes (“Non-Brazilian Noteholder”) and does not purport to be a comprehensive description of the tax aspects of the notes.

The earnings of foreign companies and persons not resident in Brazil are taxed in Brazil when derived from Brazilian sources or when the transaction giving rise to such earnings involves assets in Brazil.

Interest Payments under the Notes

Interest, fees and commissions (including any original issue discount and any redemption premium) and any other income payable by a Brazilian obligor, such as our company, to a Non-Brazilian Noteholder is subject to Brazilian income tax withheld at source. Because the notes are international debt securities of a Brazilian issuer registered with the Central Bank, the rate of withholding on the notes is 15%, unless: (i) the Non-Brazilian Noteholder is located in a tax haven (i.e., countries which do not impose any income tax or which impose it at a maximum rate lower than 20% or where the laws impose restrictions on the disclosure of ownership composition or securities ownership – “Tax Haven”) and the notes are redeemed, liquidated or converted prior to 96 months, in which case the applicable rate is 25%; or (ii) a lower rate is provided for in an applicable tax treaty between Brazil and the other country where the Non-Brazilian Noteholder has its domicile. In case the notes are redeemed, liquidated or converted prior to the prior to 96 months, the difference of rates from 15% to 25% in relation to the payments priorly made to the Non-Brazilian Noteholder located in Tax Haven shall be collected by the Brazilian obligor with fine and interest. Brazilian tax laws expressly authorize the Brazilian obligor to pay additional amounts in respect of Brazilian withholding tax, thereby assuming the cost of the applicable tax.

Capital Gains

Under Law No. 10,833 of December 29, 2003, as supplemented by Normative Ruling 407 of March 17, 2004, the disposition of assets located in Brazil by a non-Brazilian resident, whether to a Brazilian resident or another non-Brazilian resident, is subject to taxation in Brazil on any capital gain at a rate of 15% (25% when the seller is resident in a Tax Haven). Although we and our Brazilian tax advisors believe that the notes do not fall within the definition of assets located in Brazil for purposes of Law No. 10,833, the scope of the relevant provisions of this law is of a general nature and has not been interpreted by any Brazilian court. Accordingly, we can not provide any assurances that our views will ultimately be supported by the Brazilian courts if and when they interpret these provisions.

Other Tax Considerations

Generally, funds transfers in connection with financial transactions in Brazil are subject to CPMF, which is levied at a rate of 0.38% on any bank account withdrawals. The CPMF burden is incurred by the Brazilian obligor and will have no effect on the amounts received by the Non-Brazilian Noteholder. The CPMF expires on December 31, 2007, although the Brazilian federal government may extend it or transform the CPMF into a permanent tax. Tax on Foreign Exchange Transaction (“IOF/Câmbio”) can be imposed on the entry into Brazil of proceeds resulting from foreign loans (including the issuance of debt securities such as the notes). Currently, except in limited cases, the IOF/Câmbio is zero, although the Brazilian federal government may increase such rate up to 25.0%, but only with respect to future transactions.

The Tax on Bonds and Securities Transactions (“IOF/Títulos”) may be imposed on any transaction involving bonds and securities. The IOF/Títulos rate with respect to transactions of the notes in periods longer than 30 days is currently

zero, although the executive branch may increase such rate up to 1.5% per day, but only with respect to future transactions.

Generally, there is no stamp, transfer or other similar taxes in Brazil with respect to the transfer, assignment or sale of the notes outside Brazil, except for gift and inheritance taxes imposed in some states of Brazil on gifts and bequests by the Non-Brazilian Noteholder to individuals or entities domiciled or residing within such Brazilian states. There is no Brazilian stamp, issue, registration or similar taxes or duties payable by the Non-Brazilian Noteholder.

The above description is not intended to constitute a complete analysis of all Brazilian tax consequences relating to the ownership of notes. Prospective purchasers of notes should consult their own tax advisors concerning the tax consequences of their particular situations.

U.S. Federal Income Taxation

The following is a description of the principal U.S. federal income tax consequences that may be relevant with respect to the acquisition, ownership, and retirement of notes by a holder thereof. This description only applies to notes held as capital assets and does not address, except as set forth below, aspects of U.S. federal income taxation that may be applicable to holders that are subject to special rules, such as

- financial institutions;
- insurance companies;
- tax-exempt organizations;
- real estate investment trusts;
- regulated investment companies;
- grantor trusts;
- holders that will hold a note through a partnership or other pass through entity;
- persons who own 10% or more, by vote, of our equity for U.S. federal income tax purposes;
- dealers or traders in securities or foreign currencies;
- certain former citizens or long-term residents of the United States;
- persons that will hold the notes as a position in a “straddle” or as a part of a “hedging”, “conversion” or other integrated transaction for U.S. federal income tax purposes; or
- persons that have a functional currency other than the U.S. dollar.

Moreover, this description does not address the U.S. federal estate and gift tax or alternative minimum tax consequences of the acquisition, ownership or retirement of notes and does not address the U.S. federal income tax treatment of holders that do not acquire notes as part of the initial distribution at their issue price. Each prospective purchaser should consult its own tax advisor with respect to the U.S. federal, state, local and foreign tax consequences of acquiring, holding and disposing of notes.

This description is based on the Internal Revenue Code of 1986, as amended (the “Code”), existing, proposed and temporary U.S. Treasury Regulations and judicial and administrative interpretations thereof, in each case as in effect and available on the date hereof. All of the foregoing are subject to change (possibly with retroactive effect) or differing interpretations which could affect the tax consequences described herein.

For purposes of this summary, a “U.S. Holder” is a beneficial owner of the notes who for U.S. federal income tax purposes is:

- an individual citizen or resident of the United States;

- a corporation created or organized in or under the laws of the United States or any state thereof (including the District of Columbia);
- an estate the income of which is subject to U.S. federal income taxation regardless of its source; or
- a trust if such trust validly elects to be treated as a U.S. person for U.S. federal income tax purposes or if (1) a court within the United States is able to exercise primary supervision over its administration and (2) one or more U.S. persons have the authority to control all of the substantial decisions of such trust.

A “Non-U.S. Holder” is a beneficial owner of notes that is neither a U.S. Holder nor a partnership (or other entity that is treated as a partnership for U.S. federal income tax purposes).

If a partnership (or any other entity treated as a partnership for U.S. federal income tax purposes) holds the notes, the tax treatment of the partnership and a partner in such partnership will generally depend on the status of the partner and the activities of the partnership. Such a partner or partnership should consult its own tax advisor as to the consequences of holding notes.

Persons considering the purchase of the notes should consult their own tax advisors with regard to the application of the U.S. federal income tax laws to their particular situations as well as any tax consequences arising under the laws of any state, local or foreign taxing jurisdictions.

U.S. Internal Revenue Service Circular 230 Disclosure

Pursuant to U.S. Internal Revenue Service Circular 230, we hereby inform you that the description set forth herein with respect to U.S. federal tax issues was not intended or written to be used, and such description cannot be used, by any taxpayer for the purpose of avoiding any penalties that may be imposed on the taxpayer under the U.S. Internal Revenue Code. Such description was written to support the marketing of the notes. Each taxpayer should seek advice based on their particular circumstances from an independent tax advisor.

Potential Characterization of the Notes as Indebtedness

The notes should be treated as equity for U.S. federal income tax purposes and the following discussion assumes such treatment. However, it should be noted that the U.S. Internal Revenue Service (the “IRS”) could assert that the notes should be treated as indebtedness of our company for U.S. federal income tax purposes. If the notes were treated as indebtedness of our company for U.S. federal income tax purposes, the timing and character of income, gain and loss recognized by a U.S. Holder would be different, and the value of the notes could be adversely affected. For example, a U.S. Holder would include Periodic Payments (as defined below) in income as ordinary income as they accrue or are received in accordance with the holder’s method of tax accounting.

Distributions

Subject to the discussion below under “—Passive Foreign Investment Company Considerations”, the gross amount of any payment under the notes that is referred to thereunder as “interest,” including any additional amounts (“Periodic Payments”), before reduction for any Brazilian taxes withheld therefrom, will be includible in income by a U.S. Holder as dividend income to the extent such distributions are paid out of the current or accumulated earnings and profits of our company as determined under U.S. federal income tax principles. Under current law, dividends received before January 1, 2011 by non-corporate United States investors on shares of certain foreign corporations may be subject to U.S. federal income tax at lower rates than other types of ordinary income if certain conditions are met. Currently, we do not believe that Periodic Payments that we will pay on the notes meet these conditions.

Dividends paid to U.S. Holders will not be eligible for the dividends received deduction generally allowed to corporate U.S. Holders. Subject to the discussion below under “—Passive Foreign Investment Company Considerations”, to the extent, if any, that the amount of any distribution by our company exceeds our current and accumulated earnings and profits as determined under U.S. federal income tax principles, it will be treated first as a tax-free return of the U.S. Holder’s adjusted tax basis in the notes and thereafter as capital gain. We do not maintain calculations of our earnings and profits under U.S. federal income tax principles. Therefore, U.S. holders should expect that distributions by our company generally will be treated as dividends for U.S. federal income tax purposes.

Periodic Payments on the notes received by a U.S. Holder will generally be treated as foreign source income for foreign tax credit limitation purposes. The limitation on foreign taxes eligible for the U.S. foreign tax credit is calculated separately with respect to specific “baskets” of income. For this purpose, for taxable years beginning before January 1, 2007, the period payments on the notes should generally constitute “passive income”, or in the case of certain U.S. Holders, “financial services income”, and, for taxable years beginning after December 31, 2006, the periodic payments should generally constitute “passive category income”, or in the case of certain U.S. Holders, “general category income.” The rules governing the foreign tax credit are complex. U.S. Holders should consult their tax advisors regarding the availability of the foreign tax credit under their particular circumstances.

Subject to the discussion below under “—Backup Withholding Tax and Information Reporting Requirements”, a Non-U.S. Holder of notes generally will not be subject to U.S. federal income or withholding tax on Periodic Payments received on the notes, unless such income is effectively connected with the conduct by such Non-U.S. Holder of a trade or business in the United States.

Sale or Exchange of Notes

Subject to the discussion below under “—Passive Foreign Investment Company Considerations”, a U.S. Holder generally will recognize gain or loss on the sale or exchange of the notes equal to the difference between the amount realized on such sale or exchange and the U.S. Holder’s adjusted tax basis in the notes. The initial tax basis of the notes to a U.S. Holder will be the purchase price determined on the date of purchase. Subject to the discussion below under “—Passive Foreign Investment Company Considerations”, such gain or loss will be capital gain or loss. In the case of a non-corporate U.S. Holder, the maximum marginal U.S. federal income tax rate applicable to such gain will be lower than the maximum marginal U.S. federal income tax rate applicable to ordinary income if such U.S. Holder’s holding period for such notes exceeds one year (i.e., such gain is a long-term capital gain). Gain or loss, if any, recognized by a U.S. Holder generally will be treated as U.S. source gain or loss, as the case may be. The deductibility of capital losses is subject to limitations under the Code.

If any gain from the sale or exchange of notes is subject to Brazilian tax, U.S. Holders may not be able to credit such taxes against their U.S. federal income tax liability under the U.S. foreign tax credit limitations of the Code since such gain generally would be United States source income, unless such tax can be credited (subject to applicable limitations) against tax due on other income treated as derived from foreign sources.

Subject to the discussion below under “—Backup Withholding Tax and Information Reporting Requirements”, a Non-U.S. Holder of the notes generally will not be subject to U.S. federal income or withholding tax on any gain realized on the sale or exchange of such notes unless:

- such gain is effectively connected with the conduct by such Non-U.S. Holder of a trade or business in the United States or
- in the case of any gain realized by an individual Non-U.S. Holder, such holder is present in the United States for 183 days or more in the taxable year of such sale or exchange and certain other conditions are met.

Passive Foreign Investment Company Considerations

A non-U.S. corporation will be classified as a “passive foreign investment company”, or a PFIC, for U.S. federal income tax purposes in any taxable year in which, after applying certain lookthrough rules, either (1) at least 75 percent of its gross income is “passive income” or (2) at least 50 percent of the average value of its gross assets is attributable to assets that produce “passive income” or are held for the production of “passive income.” Passive income for this purpose generally includes dividends, interest, royalties, rents and gains from commodities and securities transactions.

Based on certain estimates of our gross income and gross assets and the nature of our business, we believe that we will not be classified as a PFIC for our taxable year ended December 31, 2006. Our status in future years will depend on our assets and activities in those years. We have no reason to believe that our assets or activities will change in a manner that would cause our company to be classified as a PFIC in the future, but there can be no assurance that we will not be considered a PFIC for any taxable year. If we were a PFIC, a U.S. Holder of notes generally would be subject to imputed interest charges and other disadvantageous tax treatment with respect to any gain from the sale or exchange of, and certain distributions with respect to, the notes.

If we were a PFIC, a U.S. Holder of notes could make a variety of elections that may alleviate certain of the tax consequences referred to above, and one of these elections may be made retroactively. However, it is expected that the

conditions necessary for making certain of such elections will not apply in the case of the notes. U.S. Holders should consult their own tax advisors regarding the tax consequences that would arise if we were treated as a PFIC.

Backup Withholding Tax and Information Reporting Requirements

U.S. backup withholding tax and information reporting requirements generally apply to certain payments to certain non-corporate holders. Information reporting generally will apply to the Periodic Payments on, and to proceeds from the sale or redemption of, notes made within the United States or by a U.S. payor or U.S. middleman to a holder of notes, other than an exempt recipient, including a corporation, a payee that is not a U.S. person that provides an appropriate certification and certain other persons. A payor will be required to withhold backup withholding tax from any Periodic Payments on, or the proceeds from the sale or redemption of, notes within the United States or by a U.S. payor or U.S. middleman to a holder, other than an exempt recipient, if such holder fails to furnish its correct taxpayer identification number or otherwise fails to comply with, or establish an exemption from, such backup withholding tax requirements. The backup withholding tax rate is 28% for taxable years through 2010.

Backup withholding is not an additional tax. You generally will be entitled to credit any amounts withheld under the backup withholding rules against your U.S. federal income tax liability or a refund of the amounts withheld provided the required information is furnished to the IRS in a timely manner.

The above summary is not intended to constitute a complete analysis of all U.S. federal income tax consequences relating to the ownership of notes. Prospective purchasers of notes should consult their own tax advisors concerning the tax consequences of their particular situations.

European Union Savings Directive (Directive 2003/48/EC)

The Council of the European Union ("EU") adopted a directive on the taxation of savings income (Directive 2003/48/EC). From July 1, 2005, each member state of the EU is required to provide to the tax authorities of the other member states information regarding payments of interest (or other similar income) paid by persons within its jurisdiction to individual residents of such other member states, except that Belgium, Luxembourg, and Austria will instead operate a withholding system in relation to such payments until such time as the EU is able to enter into satisfactory information exchange agreements with several non-EU countries. In addition, the Council entered into an agreement with Switzerland pursuant to which Switzerland agreed to impose withholding tax on non-Swiss source interest payments paid by persons within its jurisdiction to individual residents of the EU and share a portion of the revenue with the recipients' countries of residence.

ERISA AND CERTAIN OTHER CONSIDERATIONS

The following discussion is not intended or written to be used, and cannot be used by any person, for the purpose of avoiding U.S. federal tax penalties, and was written to support the promotion or marketing of the offering. Each prospective investor should seek advice based on such person's particular circumstances from an independent tax advisor.

The U.S. Employee Retirement Income Security Act of 1974, as amended, or ERISA, imposes certain requirements on "employee benefit plans" (as defined in, and subject to, Section 3(3) of ERISA) subject to ERISA, including entities such as collective investment funds and separate accounts whose underlying assets include the assets of such plans (collectively, "ERISA plans") and on those persons who are fiduciaries with respect to ERISA plans. Investments by ERISA plans are subject to ERISA's general fiduciary requirements, including the requirement of investment prudence and diversification and the requirement that an ERISA plan's investments be made in accordance with the documents governing the ERISA plan. The prudence of a particular investment must be determined by the responsible fiduciary of the ERISA plan by taking into account the ERISA plan's particular circumstances and all of the facts and circumstances of the investment including, but not limited to, the matters discussed above under "Risk Factors".

Section 406 of ERISA and Section 4975 of the Internal Revenue Code of 1986, as amended (the "Code"), prohibit certain transactions involving the assets of an ERISA plan (as well as those plans that are not subject to ERISA but which are subject to Section 4975 of the Code, such as individual retirement accounts (together with ERISA plans, "Plans")) and certain persons (referred to as "parties in interest" for purposes of ERISA or "disqualified persons" for purposes of the Code) having certain relationships to such Plans, unless a statutory or administrative exemption is applicable to the transaction. Among other possible adverse results, a party in interest or disqualified person who engages in a prohibited transaction may be subject to excise taxes and other penalties and liabilities under ERISA and the Code.

Governmental plans, foreign plans and certain church and other plans, while not subject to the fiduciary responsibility provisions of ERISA or the prohibited transaction provisions of Section 406 of ERISA or Section 4975 of the Code, may nevertheless be subject to other federal, state, local or non-U.S. laws that are substantially similar to the foregoing provisions of ERISA and the Code. Fiduciaries of any such plans should consult with their counsel before purchasing any notes.

Prohibited transactions within the meaning of Section 406 of ERISA or Section 4975 of the Code may arise if any notes (or interests in notes) are acquired by a Plan with respect to which Rede, or the initial purchaser, or any of their respective affiliates is a party in interest or a disqualified person. Certain exemptions from the prohibited transaction provisions of Section 406 of ERISA and Section 4975 of the Code may be applicable, however, depending in part on the type of Plan fiduciary making the decision to acquire notes and the circumstances under which such decision is made. We cannot assure you that any exemption will be available with respect to any particular transaction involving the notes, or, if available, that any particular exemption will cover all possible prohibited transactions. By its acquisition of any notes or interests in notes, the purchaser thereof, and any transferee thereof, will be deemed to have represented and agreed either that (a) it is not, and for so long as it holds the notes or interests in notes will not be, a Plan, an entity whose underlying assets include the assets of any such Plan or a governmental plan, church plan or foreign or other plan that is subject to any federal, state, local or non-U.S. law that is substantially similar to the provisions of Section 406 of ERISA or Section 4975 of the Code or (b) its acquisition, holding or disposition of the notes or interests in notes will not constitute or result in a non-exempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code (or, in the case of a governmental plan, church plan or non-U.S. or other plan, a violation of any substantially similar federal, state, local or foreign law).

The foregoing discussion is general in nature and not intended to be all inclusive. Any Plan fiduciary who proposes to cause a Plan to purchase any notes or interests in notes should consult with its counsel regarding the applicability of the fiduciary responsibility and prohibited transaction provisions of ERISA and Section 4975 of the Code to such an investment, and to confirm that such investment will not constitute or result in a prohibited transaction or any other violation of an applicable requirement of ERISA.

The sale of notes or interests in notes to a Plan is in no respect a representation by us or the initial purchaser that such an investment meets all relevant requirements with respect to investments by Plans generally or any particular Plan, or that such an investment is appropriate for Plans generally or any particular Plan.

NOTICE TO INVESTORS

The notes have not been registered, and will not be registered, under the Securities Act or any other applicable securities laws, and the notes may not be offered or sold except pursuant to an effective registration statement or pursuant to transactions exempt from, or not subject to, registration under the Securities Act. Accordingly, the notes are being offered and sold only:

- in the United States to qualified institutional buyers (as defined in Rule 144A) in reliance on Rule 144A under the Securities Act; and
- outside of the United States, to certain persons, other than U.S. persons, in offshore transactions meeting the requirements of Rule 903 of Regulation S under the Securities Act.

Each purchaser of notes (other than the initial purchaser in connection with the initial issuance and sale of notes) and each owner of any beneficial interest therein will be deemed, by its acceptance or purchase thereof, to have represented and agreed as follows:

- (1) It is purchasing the notes for its own account or an account with respect to which it exercises sole investment discretion and it and any such account is either (a) a qualified institutional buyer and is aware that the sale to it is being made in reliance on Rule 144A or (b) a non-U.S. person that is outside the United States.
- (2) It acknowledges that the notes have not been registered under the Securities Act or with any securities regulatory authority of any jurisdiction and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except as set forth below.
- (3) It understands and agrees that notes initially offered in the United States to qualified institutional buyers will be represented by one or more global notes and that notes offered outside the United States in reliance on Regulation S will also be represented by one or more global notes.
- (4) It will not resell or otherwise transfer any of such notes except (a) to Rede, (b) within the United States to a qualified institutional buyer in a transaction complying with Rule 144A under the Securities Act, (c) outside the United States in compliance with Rule 903 or 904 under the Securities Act, (d) pursuant to the exemption from registration provided by Rule 144 under the Securities Act (if available) or (e) pursuant to an effective registration statement under the Securities Act.
- (5) It agrees that it will give to each person to whom it transfers the notes notice of any restrictions on transfer of such notes.
- (6) It acknowledges that prior to any proposed transfer of notes (other than pursuant to an effective registration statement or in respect of notes sold or transferred either pursuant to (a) Rule 144A or (b) Regulations S and listed on the Luxembourg Stock Exchange) the holder of such notes may be required to provide certifications relating to the manner of such transfer as provided in the indenture.
- (7) It acknowledges that the trustee, registrar or transfer agent for the notes will not be required to accept for registration transfer of any notes acquired by it, except upon presentation of evidence satisfactory to us and the trustee, registrar or transfer agent that the restrictions set forth herein have been complied with.
- (8) Either that (a) it is not, and for so long as it holds the notes or interests in notes will not be, a Plan, an entity whose underlying assets include the assets of any such Plan or a governmental plan, church plan or foreign or other plan that is subject to any federal, state, local or non-U.S. law that is substantially similar to the provisions of Section 406 of ERISA or Section 4975 of the Code or (b) its acquisition, holding or disposition of the notes or interests in notes will not constitute or result in a non-exempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code (or, in the case of a governmental plan, church plan or non-U.S. or other plan, a violation of any substantially similar federal, state, local or foreign law).
- (9) It acknowledges that we, the initial purchaser and other persons will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements and agrees that if any of the acknowledgements, representations and agreements deemed to have been made by its purchase of the notes are no longer accurate, it will promptly notify us and the initial purchaser. If it is acquiring the notes as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each such account and

it has full power to make the foregoing acknowledgements, representations, and agreements on behalf of each account.

The following is the form of restrictive legend which will appear on the face of the Rule 144A global note, and which will be used to notify transferees of the foregoing restrictions on transfer:

“This Note has not been registered under the U.S. Securities Act of 1933, as amended (the “Securities Act”), or any other securities laws. The holder hereof, by purchasing this Note, agrees that this Note or any interest or participation herein may be offered, resold, pledged or otherwise transferred only (i) to Rede Empresas de Energia Elétrica S.A., (ii) so long as this Note is eligible for resale pursuant to Rule 144A under the Securities Act (“Rule 144A”), to a person who the seller reasonably believes is a qualified institutional buyer (as defined in Rule 144A) in accordance with Rule 144A, (iii) in an offshore transaction in accordance with Rule 903 or 904 of Regulation S under the Securities Act, (iv) pursuant to an exemption from registration under the Securities Act afforded by Rule 144 under the Securities Act (if available) or (v) pursuant to an effective registration statement under the Securities Act, and in each of such cases in accordance with any applicable securities laws of any state of the United States or other applicable jurisdiction. The holder hereof, by purchasing this Note, represents and agrees that it will notify any purchaser of this Note from it of the resale restrictions referred to above. The foregoing legend may be removed from this Note on satisfaction of the conditions specified in the indenture referred to herein.”

The following is the form of restrictive legend which will appear on the face of the Regulation S global note and which will be used to notify transferees of the foregoing restrictions on transfer:

“This Note has not been registered under the U.S. Securities Act of 1933, as amended (the “Securities Act”), or any other securities laws. The holder hereof, by purchasing this Note, agrees that neither this Note nor any interest or participation herein may be offered, resold, pledged or otherwise transferred in the absence of such registration unless such transaction is exempt from, or not subject to, such registration.

The foregoing legend may be removed from this Note after 40 days beginning on and including the later of (a) the day on which the Notes are offered to persons other than distributors (as defined in Regulation S under the Securities Act) and (b) the original issue date of this Note.”

For further discussion of the requirements (including the presentation of transfer certificates) under the indenture to effect exchanges or transfers of interest in global notes and certificated notes, see “Description of the Notes—Form and Registration.”

PLAN OF DISTRIBUTION

We intend to offer the notes through the initial purchaser, Merrill Lynch, Pierce, Fenner & Smith Incorporated. Subject to the terms and conditions contained in a purchase agreement between us and the initial purchaser, we have agreed to sell to the initial purchaser, and the initial purchaser has agreed to purchase from us, US\$400,000,000 principal amount of the notes.

The initial purchaser has agreed to purchase all of the notes being sold pursuant to the purchase agreement if any of the notes are purchased. The initial purchaser has advised us that it proposes initially to offer the notes at the offering price set forth on the cover page of this prospectus.

We have agreed to indemnify the initial purchaser against certain liabilities, including liabilities under the Securities Act, or to contribute to payments the initial purchaser may be required to make in respect of those liabilities.

The initial purchaser is offering the notes, subject to prior sale, when, as and if issued to and accepted by it, subject to approval of legal matters by its U.S. and Brazilian counsel, including the validity of the notes, and other conditions contained in the purchase agreement, such as, but not limited to, the receipt by the initial purchaser of officers' certificates and legal opinions. The initial purchaser reserves the right to withdraw, cancel or modify offers to investors and to reject orders in whole or in part.

Notes are Not Being Registered

The initial purchaser proposes to offer the notes for resale in transactions not requiring registration under the Securities Act or applicable state securities laws, including sales pursuant to Rule 144A or Regulation S. The initial purchaser will not offer or sell the notes except:

- to persons it reasonably believes to be qualified institutional buyers; or
- pursuant to offers and sales to non-U.S. persons that occur outside the United States within the meaning of Regulation S.

Notes sold pursuant to Regulation S may not be offered or resold in the United States or to U.S. persons (as defined in Regulation S), except under an exemption from the registration requirements of the Securities Act or under a registration statement declared effective under the Securities Act.

The initial purchaser has represented to us that it has not offered or sold and will not offer or sell any notes in Brazil, except in circumstances which do not constitute a public offering or distribution under Brazilian laws and regulations. The notes have not been and will not be registered with the CVM, the Brazilian securities commission. Any public offering or distribution of the notes in Brazil would require prior registration with the CVM.

Each purchaser of the notes will be deemed to have made acknowledgments, representations and agreements as described under "Notice to Investors."

No Sale of Similar Securities

Rede has agreed, with exceptions, that Rede and its subsidiaries will not sell or transfer any debt securities for 60 days after the date of this prospectus without first obtaining the written consent of Merrill Lynch, Pierce, Fenner & Smith Incorporated. Specifically, Rede and its subsidiaries have agreed not to directly or indirectly (subject to certain exceptions):

- offer, pledge, sell, or contract to sell any debt securities;
- sell any option or contract to purchase any debt securities;
- purchase any option or contract to sell any debt securities;
- grant any option, right or warrant for the sale of any debt securities;
- file a registration statement for any debt securities; or

- lend or otherwise dispose of or transfer any debt securities.

This lockup provision applies to debt securities or any securities convertible into or exercisable or exchangeable for debt securities.

New Issue of Notes

The notes are a new issue of securities with no established trading market. We do not intend to apply for listing of the notes on any U.S. securities exchange or for quotation of the notes on any automated dealer quotation system. The initial purchaser has advised us that it presently intends to make a market in the notes after completion of this offering. However, it is under no obligation to do so and may discontinue any market-making activities at any time without any notice.

The notes are expected to be eligible for trading in the PORTAL market, the National Association of Securities Dealers' market for designated securities through an automated quotation and communication system that facilitates private offerings, resales, trading, clearing and settlement of securities eligible for resale under Rule 144A. However, that does not ensure that a liquid or active public trading market for the notes will develop. If an active trading market for the notes does not develop, the market price and liquidity of the notes may be adversely affected. If the notes are traded, they may trade at a discount from their offering price, depending on prevailing interest rates, the market for similar securities, our performance and other factors.

Price Stabilization and Short Positions

In connection with the offering, the initial purchaser may engage in transactions that stabilize the market price of the notes. Such transactions consist of bids or purchases to peg, fix or maintain the price of the notes. If the initial purchaser creates a short position in the notes in connection with the offering, (*i.e.*, if they sell more notes than are listed on the cover page of this prospectus), the initial purchaser may reduce that short position by purchasing notes in the open market. Purchases of a security to stabilize the price or to reduce a short position may cause the price of the security to be higher than it might be in the absence of such purchases.

Neither we nor the initial purchaser makes any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of the notes. In addition, neither we nor the initial purchaser makes any representation that the initial purchaser will engage in these transactions or that these transactions, once commenced, will not be discontinued without notice.

Other Relationships

The initial purchaser has engaged in, and may in the future engage in, investment banking and other commercial dealings in the ordinary course of business with us. The initial purchaser has received or will receive customary fees and commissions for these transactions.

Stamp Taxes

Purchasers of any notes sold outside the United States maybe required to pay stamp taxes and other charges in accordance with the laws and practices of the country of purchase in addition to the offering price paid by such purchasers for such notes.

LEGAL MATTERS

The validity of the notes offered and sold in this offering will be passed upon for us by White & Case LLP, and for the initial purchaser by Milbank, Tweed, Hadley & McCloy LLP. Certain matters of Brazilian law relating to the notes will be passed upon for us by Souza, Cescon Avedissian, Barrieu e Flesch Advogados, São Paulo, Brazil. Mattos Filho, Veiga Filho, Marrey Jr. e Quiroga Advogados, São Paulo, Brazil, will pass upon certain matters of Brazilian law relating to the notes for the initial purchaser.

INDEPENDENT ACCOUNTANTS

Our consolidated financial statements at December 31, 2006 and 2005 and for the years ended December 31, 2006, 2005 and 2004 included in this prospectus have been audited by BDO Trevisan, independent accountants, as stated in their report appearing herein.

LISTING AND GENERAL INFORMATION

1. The notes have been accepted for clearance and settlement through DTC, Euroclear and Clearstream. The CUSIP, ISIN and common code numbers for the notes are as follows:

	Restricted Global Note	Regulation S Global Note
CUSIP.....	75734PAA7	P8001VAD8
ISIN.....	US75734PAA75	USP8001VAD84
Common Codes.....	029488061	029488126

2. Copies of Rede's latest audited consolidated and non-consolidated annual financial statements for the years ended December 31, 2005 and 2006, as well as any future consolidated and non-consolidated audited annual and unaudited quarterly financial statements, if any, and copies of the *estatuto social* (by-laws) of Rede, as well as the indenture (including forms of notes), will be available free of charge at the offices of the principal paying agent and any other paying agent, including the Luxembourg paying agent.

3. Except as disclosed in this prospectus, there has been no material adverse change in Rede's financial position since December 31, 2006, the date of the latest audited financial statements included in this prospectus.

4. Except as disclosed in this prospectus, Rede is not involved in any litigation or arbitration proceedings relating to claims or amounts that are material in the context of this offering, nor so far Rede is aware is any such litigation or arbitration pending or threatened.

5. Application has been made to admit the notes to listing on the Official List of the Luxembourg Stock Exchange and to trading on the Euro MTF Market of the Luxembourg Stock Exchange.

6. The issuance of the notes was authorized by Rede's board of directors on March 28, 2007.

SERVICE OF PROCESS AND ENFORCEMENT OF JUDGMENTS

Rede is incorporated under the laws of Brazil. All of Rede's directors and officers reside outside the United States, and substantially all of its assets are located in Brazil. As a result, it may not be possible (or it may be difficult) for you to effect service of process upon us or these other persons within the United States or to enforce judgments obtained in United States courts against us or them, including those predicated upon the civil liability provisions of the federal securities laws of the United States.

We have been advised by Souza, Cescon, Avedissian, Barriau e Flesch Advogados, our Brazilian counsel, that a judgment of a United States court for civil liabilities predicated upon the federal securities laws of the United States may be enforced in Brazil, subject to certain requirements described below. Such counsel has advised that a judgment against us, the directors and officers or certain advisors named herein obtained in the United States would be enforceable in Brazil upon confirmation of that judgment by the *Superior Tribunal de Justiça* (Superior Tribunal of Justice). That confirmation will only be available if the U.S. judgment:

- fulfills all formalities required for its enforceability under the laws of the United States;
- is issued by a court of competent jurisdiction after proper service of process is made in accordance with Brazilian law or after sufficient evidence of our absence has been given, as requested under the laws of the United States;
- is not subject to appeal;
- is for payment of a determined sum of money;
- is authenticated by a Brazilian diplomatic office in the United States and is accompanied by a sworn translation into Portuguese; and
- is not against Brazilian public policy, good morals or national sovereignty (as set forth in Brazilian law).

Notwithstanding the foregoing, we cannot assure you that confirmation will be obtained, that the process described above will be conducted in a timely manner or that Brazilian courts will enforce a monetary judgment for violation of the U.S. securities laws with respect to the notes.

We have been further advised by Souza, Cescon, Avedissian, Barriau e Flesch Advogados that:

- original actions may be brought in connection with this prospectus predicated solely on the federal securities laws of the United States in Brazilian courts and that, subject to applicable law, Brazilian courts may enforce liabilities in such actions against us or the directors and officers and certain advisors named herein (provided that provisions of the federal securities laws of the United States do not contravene Brazilian public policy, good morals or national sovereignty and provided further that Brazilian courts can assert jurisdiction over the particular action);
- our assets and equipment that are considered essential for the rendering of public services under governmental concessions (*Serviços vinculados à concessão ou bens reversíveis*) are entitled to immunity and cannot be attached prior to any entry of judgment or in aid of execution upon a judgment; and
- the ability of a judgment creditor or the other persons named above to satisfy a judgment by attaching certain assets of ours or any selling shareholder's, respectively, is limited by provisions of Brazilian law.

In addition, a plaintiff (whether Brazilian or non-Brazilian) that resides outside Brazil during the course of litigation in Brazil must provide a bond to guarantee court costs and legal fees if the plaintiff owns no real property in Brazil that could secure payment, except in the case of collection claims based on an instrument that may be enforced in Brazilian courts without the review of its merit (*título executivo extrajudicial*) or counterclaims as established under Article 836 of the Brazilian Code of Civil Procedure. This bond must have a value sufficient to satisfy the payment of court fees and defendant attorney's fees, as determined by the Brazilian judge, except in the case of the enforcement of foreign judgments that have been duly confirmed by the *Superior Tribunal de Justiça* (Superior Tribunal of Justice). Notwithstanding the foregoing, we cannot assure you that confirmation of any judgment will be obtained, or that the process described above can be conducted in a timely manner.

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INDEPENDENT AUDITORS' REPORT

To the Shareholders and Management of
REDE EMPRESAS DE ENERGIA ELÉTRICA S.A.
São Paulo – SP - Brazil

1. We have audited the accompanying consolidated balance sheets of REDE EMPRESAS DE ENERGIA ELÉTRICA S.A., formerly known as Caiuá Serviços de Eletricidade S.A., and subsidiaries ("the Company") as of December 31, 2006, 2005 and 2004 and the related consolidated statements of income, changes in shareholders' equity and changes in financial position for each of the years in the three-year period ended December 31, 2006. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.
2. We conducted our audits in accordance with auditing standards generally accepted in Brazil, which require that we plan and perform the audit to obtain a reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.
3. The Company elected to defer net exchange losses incurred during the year ended December 31, 2001. The Brazilian accounting practices require that exchange rate fluctuations be recognized in income in the period in which they occur. As a result, net loss for the year ended as of December 31, 2004 are overstated by R\$2.216.
4. In our opinion, except for the effects of the matter mentioned in paragraph 3, the consolidated financial statements referred to in paragraph 1 present fairly, in all material respects, the consolidated financial position of REDE EMPRESAS DE ENERGIA ELÉTRICA S.A. and subsidiaries as of December 31, 2006, 2005 and 2004 and the results of their operations, the changes in shareholders' equity and the changes in financial position for each of the years in the three-year period ended December 31, 2006, in conformity with Brazilian accounting practices.



BDO Trevisan

INDEPENDENT AUDITORS' REPORT

To the Shareholders and Management of
REDE EMPRESAS DE ENERGIA ELÉTRICA S.A.
São Paulo – SP - Brazil

5. The supplementary information related to the consolidated statements of cash flows is presented for the purpose of permitting additional analysis and is not required as a part of the basic financial statements under Brazilian corporate law. We have audited this additional information in accordance with the audit procedures described in paragraph 2, and in our opinion, such information is presented fairly, in all material respects, in relation to the financial statements taken as a whole.
6. Certain accounting practices applied by the Company that are in conformity with accounting practices adopted in Brazil may not be in conformity with generally accepted accounting principles in countries of users of the financial statements other than Brazil.

São Paulo, February 27, 2007

A handwritten signature in blue ink that reads 'BDO Trevisan'. The signature is written in a stylized, cursive-like font.

BDO Trevisan Auditores Independentes

SCHEDULE 1
REDE EMPRESAS DE ENERGIA ELÉTRICA S.A. AND SUBSIDIARIES
BALANCE SHEETS AS OF DECEMBER 31, 2006, 2005 AND 2004
(In thousands of Brazilian Reals - R\$)

	Notes	Company			Consolidated				Notes	Company			Consolidated		
		2006	2005	2004	2006	2005	2004			2006	2005	2004	2006	2005	2004
ASSETS								LIABILITIES							
CURRENT ASSETS								CURRENT LIABILITIES							
Cash and cash equivalents		1,590	1,610	14,376	86,527	89,639	74,495	Suppliers	19	411	13	29,605	380,543	480,112	526,617
Marketable securities	7	1,380	-	56,723	413,957	171,127	144,955	Payroll		11	2	404	5,089	5,755	6,634
Consumers and Distributions	8	-	-	33,098	797,335	694,344	704,282	Taxes and social charges payable	20	2,580	4,129	43,196	295,528	514,855	360,215
(-) Allowance for doubtful accounts	8	-	-	(1,039)	(58,405)	(51,237)	(80,196)	Dividends and interest receivable on shareholders' equity		452	452	452	43,924	21,085	8,777
Dividends and interest receivable on shareholders' equity	14	195,748	33,928	-	-	-	-	Profit sharing		-	-	-	5,286	5,491	1,238
Taxes and social charges recoverable	9	3,390	2,038	3,243	147,553	103,789	87,901	Loans, financing, and charges	21	175,581	43,952	78,419	657,979	650,236	438,035
Accounts receivable	12	5,734	-	1,235	36,597	13,719	12,998	Debtentures and charges	22	143,276	85,833	84,601	143,276	85,833	84,601
Inventories		-	-	1,314	45,616	29,601	37,890	Regulatory charges payable	23	-	-	1,215	137,079	97,637	29,235
Services in progress		1,754	-	1,042	45,058	38,663	41,084	Labor indemnity - Bresser Plan	26	-	-	-	39,872	32,415	20,000
Revenue reduction - low income consumers	10	-	-	881	17,429	27,760	10,177	Accrued liabilities		-	-	1,267	31,088	33,734	30,762
Fuel subsidies CCC		-	-	-	20,004	90,941	19,543	Others	27	8,044	1,814	3,913	126,076	102,957	111,738
Pre-paid expenses	11	51	-	701	111,123	94,934	72,365	Total current liabilities		330,355	136,195	243,072	1,865,740	2,030,110	1,617,852
Others	13	4,209	4,379	8,272	97,997	80,562	62,359								
TOTAL CURRENT ASSETS		213,856	41,955	119,846	1,760,791	1,383,842	1,187,853	LONG-TERM LIABILITIES							
LONG-TERM ASSETS								Suppliers	19	-	-	9,769	62,508	118,583	131,242
Consumers and Distributions	8	-	-	24,594	305,062	262,398	175,408	Taxes and social charges payable	20	17,147	39,095	78,037	1,050,036	847,173	784,396
(-) Allowance for doubtful accounts	8	-	-	-	(16,790)	-	-	Loans, financings, and charges	21	545,147	112,190	173,085	1,968,769	805,836	875,355
Related parties	14	564,141	2	505,236	215,711	114,604	70,383	Debtentures and charges	22	14,632	153,017	230,977	14,632	153,017	230,977
Retained deposits and guarantees		-	-	7,322	49,326	51,329	50,175	Regulatory charges payable	23	-	-	-	-	3,428	29,663
Escrow deposits	25	-	-	55	33,074	22,419	20,336	Sub-rogation - CCC	24	-	-	-	44,344	9,071	3,045
Deferred tax credits	15	-	47,363	47,363	579,010	639,012	495,782	Related parties	13	932,469	548,968	899,095	191,188	421,587	324,174
Recoverable credits		-	-	-	87,116	55,968	43,917	Pension plans	39	-	-	-	15,721	16,322	17,435
Pre-paid expenses	11	-	-	15,520	105,265	107,553	177,869	Labor indemnity - Bresser Plan	26	-	-	-	297,260	335,626	350,000
Accounts receivable	12	52,071	-	4,037	176,838	122,701	112,074	Provision for contingencies and litigation	25	-	-	6,321	22,100	90,021	91,717
Others	13	-	-	1,328	18,456	16,181	18,552	Taxes on revaluation reserve	15	67,927	77,043	40,148	670,449	731,990	294,500
Total long-term assets		616,212	47,365	605,455	1,553,068	1,392,165	1,164,496	Others	27	-	-	9,169	245,544	201,398	168,537
PERMANENT ASSETS								Total long-term liabilities		1,577,322	930,313	1,446,601	4,580,551	3,734,052	3,301,041
Investments	16	1,891,684	1,643,745	996,189	1,135,178	1,064,552	664,737	DEFERRED INCOME							
Property, plant and equipment - net	17	-	-	163,768	4,519,957	4,397,005	2,834,138	Revenue received in advance	28	59,000	-	4,835	59,000	2,281	4,835
Intangible assets - net	18	-	-	1,453	28,694	24,053	23,920	TOTAL LONG-TERM LIABILITIES		1,636,322	930,313	1,451,436	4,639,551	3,736,333	3,305,876
Deferred charges - net		-	-	25	5,120	2,949	1,019	MINORITY INTEREST		-	-	-	1,764,394	1,372,458	788,001
Total permanent assets		1,891,684	1,643,745	1,161,435	5,688,949	5,488,559	3,523,814	SHAREHOLDERS' EQUITY AND RESOURCES DESTINED FOR CAPITAL INCREASE AND NON-EQUITY INTERESTS							
TOTAL LONG-TERM ASSETS		2,507,896	1,691,110	1,766,890	7,242,017	6,880,724	4,688,310	Capital stock	29	538,052	538,052	538,052	538,052	538,052	538,052
								Capital reserves	29	4,458	4,458	4,460	4,458	4,458	4,460
								Revaluation reserve	17	687,855	750,874	308,518	687,855	750,874	308,518
								Accumulated losses		(475,290)	(626,827)	(658,802)	(548,286)	(702,749)	(737,641)
								Total shareholder's equity		755,075	666,557	192,228	682,079	590,635	113,389
								Resources destined for capital increase		-	-	-	51,044	268,232	51,045
								Reserves destined to acquire founder's shares		-	-	-	-	266,798	-
								Total shareholders' equity and resources destined for capital increase and non-equity interests		755,075	666,557	192,228	733,123	1,125,665	164,434
								Total shareholders' equity and resources destined for capital increase, non-equity interests and minority interest		755,075	666,557	192,228	2,497,517	2,498,123	952,435
TOTAL ASSETS		2,721,752	1,733,065	1,886,736	9,002,808	8,264,566	5,876,163	TOTAL LIABILITIES		2,721,752	1,733,065	1,886,736	9,002,808	8,264,566	5,876,163

The accompanying notes are an integral part of these financial statements.

SCHEDULE 2

REDE EMPRESAS DE ENERGIA ELÉTRICA S.A. AND SUBSIDIARIES

STATEMENTS OF INCOME FOR THE YEARS ENDED

DECEMBER 31, 2006, 2005 AND 2004

(In thousands of Brazilian Reais - R\$, except per share data)

		Company			Consolidated	
	Notes	2006	2005	2004	2006	2005
			Restated	Restated	Restated	Restated
GROSS OPERATING REVENUE						
Electricity sales	30	-	198,921	196,426	4,614,388	4,074,306
Electricity supplied for resale	30	-	1,417	1,598	100,262	91,494
Transmission		-	-	-	-	1,060
Other revenues		-	2,448	2,570	60,423	53,002
		-	202,786	200,594	4,775,073	4,219,862
DEDUCTIONS FROM OPERATING REVENUE						
ICMS (state VAT)		-	(33,859)	(35,261)	(991,330)	(898,039)
Current PIS (Tax on revenue)		-	(3,296)	(3,451)	(84,011)	(75,944)
Deferred PIS (See note 10)		-	-	-	(4,776)	(6,369)
Current COFINS		-	(15,183)	(15,054)	(391,599)	(356,856)
Deferred COFINS (See note 10)		-	-	-	(47,982)	3,515
Global reversion reserve quota - RGR		-	(405)	(701)	(36,909)	(37,117)
Others		-	(672)	(1,172)	(1,735)	(52,513)
		-	(53,415)	(55,639)	(1,558,342)	(1,423,323)
NET OPERATING REVENUE		-	149,371	144,955	3,216,731	2,796,539
ELECTRICITY						
Electricity purchased for resale	31 and 32	-	(56,839)	(59,977)	(897,998)	(812,561)
Electricity transmission charges		-	(16,343)	(14,525)	(216,384)	(195,786)
		-	(73,182)	(74,502)	(1,114,382)	(1,008,347)
OPERATING COSTS						
Personnel		-	(6,411)	(7,494)	(97,282)	(115,610)
Management compensation		-	-	-	-	(2,696)
Materials		-	(1,578)	(1,720)	(27,165)	(28,192)
Supplies for production of electricity		-	-	0	(231,612)	(226,927)
Third party services		-	(4,551)	(5,163)	(178,241)	(149,514)
Depreciation and amortization		-	(12,883)	(13,558)	(275,802)	(221,503)
Leasing and rents		-	(51)	(101)	(92,083)	(100,050)
Subvenção - CCC		-	-	-	251,474	252,592
Service cost provided to third-parties		-	-93	(100)	(10,094)	(9,012)
Other expenses		-	(448)	(699)	(25,744)	(13,115)
		-	(26,015)	(28,735)	(686,549)	(614,027)
GROSS PROFIT		-	50,174	41,718	1,415,800	1,174,165
OPERATING EXPENSES						
Selling expenses	33	-	(4,549)	(5,521)	(145,118)	(78,138)
General and administrative	33	(4,754)	(18,257)	(26,674)	(317,934)	(258,867)
Other operating expenses	33	(75)	(16,298)	(13,655)	(334,965)	(249,230)
		(4,829)	(39,104)	(45,850)	(798,017)	(586,235)
SERVICE INCOME		(4,829)	11,070	(4,232)	617,783	587,930
Equity in subsidiaries	16	293,996	131,735	(73,006)	173,981	(1,822)

SCHEDULE 2 (page 2)

REDE EMPRESAS DE ENERGIA ELÉTRICA S. A . AND SUBSIDIARIES

STATEMENTS OF INCOME

FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

(In thousands of Brazilian reais - R\$, except per share data)

		Company			Consolidated		
	Notes	2006	2005	2004	2006	2005	2004
			Restated	Restated		Restated	Restated
FINANCIAL INCOME (EXPENSES)							
Financial income							
Investment Income		496	4,556	2,319	53,060	20,717	5,302
Active interests		61,762	31,487	78,427	139,795	67,220	68,952
Late payment charges - electricity sale		-	1,515	1,397	46,582	41,381	34,850
Monetary variation - domestic currency		-	-	33	(7,713)	5,210	273
Monetary variation - foreign currency		-	-	446	41,645	29,105	15,865
Others	34	(864)	284	(3,529)	23,108	17,563	2,250
		<u>61,394</u>	<u>37,842</u>	<u>79,093</u>	<u>296,477</u>	<u>181,196</u>	<u>127,492</u>
Financial expenses							
Debt charges		(187,460)	(156,572)	(185,322)	(332,036)	(241,720)	(247,438)
Monetary variation - domestic currency		(12,804)	(15,360)	(29,717)	(14,375)	(82,982)	(14,087)
Monetary variation - foreign currency		-	(1,116)	(2,323)	(18,736)	(1,612)	(6,508)
Monetary variations and late payment charges - electricity purchases		-	(56)	(53)	(29,143)	(64,147)	(97,154)
Interest and fines		(8,487)	(24,028)	(14,966)	(317,385)	(246,441)	(189,257)
Interest on shareholders' equity		-	-	0	(10,372)	(11,673)	(1,866)
Others	34	(10,149)	(7,706)	(12,247)	(66,055)	(30,851)	(91,807)
		<u>(218,900)</u>	<u>(204,838)</u>	<u>(244,628)</u>	<u>(788,102)</u>	<u>(679,426)</u>	<u>(648,117)</u>
Total financial income (expenses)		<u>(157,506)</u>	<u>(166,996)</u>	<u>(165,535)</u>	<u>(491,625)</u>	<u>(498,230)</u>	<u>(520,625)</u>
INCOME (LOSS) FROM OPERATIONS							
		<u>131,661</u>	<u>(24,191)</u>	<u>(242,773)</u>	<u>300,139</u>	<u>87,878</u>	<u>(59,128)</u>
NON-OPERATING INCOME (EXPENSES)							
Non-operating income	35	5	1,428	40,089	146,248	35,343	82,791
Non-operating expenses	35	(3,086)	(3,178)	(123)	(49,141)	(18,657)	(19,031)
		<u>(3,081)</u>	<u>(1,750)</u>	<u>39,966</u>	<u>97,107</u>	<u>16,686</u>	<u>63,760</u>
INCOME (LOSS) BEFORE INCOME TAX AND SOCIAL CONTRIBUTION TAXES							
		<u>128,580</u>	<u>(25,941)</u>	<u>(202,807)</u>	<u>397,246</u>	<u>104,564</u>	<u>4,632</u>
INCOME TAX AND SOCIAL CONTRIBUTION TAXES							
Current		(1,815)	(1,056)	-	(220,442)	(126,993)	(33,564)
Deferred		(38,247)	4,385	3,358	30,655	196,403	(14,443)
		<u>(40,062)</u>	<u>3,329</u>	<u>3,358</u>	<u>(189,787)</u>	<u>69,410</u>	<u>(48,007)</u>
INCOME (LOSS) BEFORE PARTICIPATING INTEREST AND REVERSAL OF INTEREST ON CAPITAL							
		<u>88,518</u>	<u>(22,612)</u>	<u>(199,449)</u>	<u>207,459</u>	<u>173,974</u>	<u>(43,375)</u>
Administrators interest		-	-	-	(1,170)	(3,700)	(1,210)
Beneficiary party interest		-	-	-	(4,116)	(3,602)	-
INCOME (LOSS) BEFORE REVERSAL OF INTEREST ON CAPITAL AND MINORITY INTEREST							
		<u>88,518</u>	<u>(22,612)</u>	<u>(199,449)</u>	<u>202,173</u>	<u>166,672</u>	<u>(44,585)</u>
Reversal of interest on capital		-	-	-	10,372	11,673	1,866
INCOME (LOSS) BEFORE EXTRAORDINARY ITEMS AND MINORITY INTEREST							
		<u>88,518</u>	<u>(22,612)</u>	<u>(199,449)</u>	<u>212,545</u>	<u>178,345</u>	<u>(42,719)</u>
Extraordinary items, net of tax effects		-	-	-	-	-	(244,200)
INCOME (LOSS) BEFORE MINORITY INTEREST							
		<u>88,518</u>	<u>(22,612)</u>	<u>(199,449)</u>	<u>212,545</u>	<u>178,345</u>	<u>(286,919)</u>
Minority interest on subsidiaries net income		-	-	-	(124,027)	(200,957)	87,470
NET INCOME (LOSS) FOR THE YEAR							
		<u>88,518</u>	<u>(22,612)</u>	<u>(199,449)</u>	<u>88,518</u>	<u>(22,612)</u>	<u>(199,449)</u>
Net income (loss) per thousand of shares - R\$							
		311,39	(397,72)	(3,508.14)	311,39	(397,72)	(3,508.14)

The accompanying notes are an integral part of these financial statements.

SCHEDULE 3

REDE EMPRESAS DE ENERGIA ELÉTRICA S.A.

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEARS ENDED DECEMBER 31, 2006, 2005 AND 2004 (In thousands of Brazilian Reais - R\$)

	Capital	Capital reserves	Revaluation reserves	Accumulated losses	Total shareholders' equity
BALANCES AS OF DECEMBER 31, 2003	538,052	4,296	361,033	(497,416)	405,965
Interest on constructions in progress	-	164	-	-	164
Realization of revaluation reserve in subsidiaries	-	-	(14,452)	-	(14,452)
Realization of revaluation reserve net of tax effects	-	-	(38,063)	38,063	-
Net loss for the year	-	-	-	(199,449)	(199,449)
BALANCES AS OF DECEMBER 31, 2004	538,052	4,460	308,518	(658,802)	192,228
Adjustments from previous years in subsidiaries	-	-	-	(9,836)	(9,836)
Interest on constructions in progress	-	(2)	-	-	(2)
Revaluation of property, plant and equipment - Extraordinary Meeting of Jul/28/2005	-	-	124,802	-	124,802
Tax charges on revaluation reserve	-	-	(41,280)	-	(41,280)
Revaluation property, plant and equipment in subsidiaries, net of tax effects	-	-	423,257	-	423,257
Realization of revaluation reserve in subsidiaries	-	-	(55,766)	55,766	-
Realization of revaluation reserve net of tax effects	-	-	(8,657)	8,657	-
Net loss for the year	-	-	-	(22,612)	(22,612)
BALANCES AS OF DECEMBER 31, 2005	538,052	4,458	750,874	(626,827)	666,557
Realization of revaluation reserve in subsidiaries	-	-	(63,019)	63,019	-
Net income for the year	-	-	-	88,518	88,518
BALANCES AS OF DECEMBER 31, 2006	<u>538,052</u>	<u>4,458</u>	<u>687,855</u>	<u>(475,290)</u>	<u>755,075</u>

The accompanying notes are an integral part of these financial statements.

SCHEDULE 4

REDE EMPRESAS DE ENERGIA ELÉTRICA S.A. AND SUBSIDIARIES

STATEMENTS OF CHANGES IN FINANCIAL POSITION FOR THE YEARS ENDED DECEMBER 31, 2006, 2005 AND 2004 (In thousands of Brazilian reais - R\$)

Notes	Company				Consolidated		
	2006	2005	2005	2004	2006	2005	2004
FINANCIAL RESOURCES WERE PROVIDED BY							
Operations:							
Adjusted net income for the year (see below)					430,990	467,427	285,227
From third parties:							
Decrease in long-term assets	4,246	24,467	24,467	61,532	218,714	223,032	297,773
Increase in passive intercompany loans, net	286,884	53,869	53,869	118,893		40,914	37,275
Disposal of property, plant and equipment	19,989	601	601	137,009	502,741	90,771	239,089
Increase in long-term liabilities	241,482	4,095	4,095	4,164	354,833	258,477	212,688
Loans, financings, and debentures	21 74,163	74,756	74,756	14,018	1,351,928	380,032	186,463
Assumption of debts with subsidiary	21 412,182	-	0	-	412,182	-	-
Taxes payable and taxes in installments	-	17,143	17,143	71,546	154,004	79,036	313,465
Decrease in active intercompany loans, net	-	24,845	-	-	-	-	6,504
Concession-linked obligations	-	1,873	1,873	1,944	278,794	93,089	91,205
Granting of Working capital - vertical divestiture	-	77,714	77,714	-	-	-	-
Dividends and interest on shareholders' equity	202,466	22,059	22,059	1,588	-	11,673	-
Negative goodwill on acquisition of subsidiary	-	-	-	-	-	14,014	-
	1,241,412	301,422	276,577	410,694	3,273,196	1,191,038	1,384,462
FINANCIAL RESOURCES WERE USED FOR							
Net income (loss) for the year	(88,518)	22,612	22,612	199,449	(88,518)	22,612	199,449
Minority interest on income	-	-	-	-	(124,027)	(200,957)	87,470
Income (expenses) not affecting working capital:	-	-	-	-	-	-	-
Depreciation and amortization (property, plant and equipment and deferred items)	-	(13,541)	(13,541)	(14,352)	(287,635)	(235,660)	(167,504)
Expenses (incomes) financial of the assets and liabilities non-current (net)	(62,730)	(94,898)	(94,898)	(92,865)	(197,834)	(188,433)	(205,726)
Write-offs of property, plant and equipment	-	(1,723)	(1,723)	(3,124)	(109,257)	(127,598)	(90,939)
Provision for contingencies	-	-	(99)	(171)	10,305	7,559	8,234
Income (loss) from interests held in subsidiary	16 293,996	131,735	131,735	(73,006)	173,981	(1,822)	(10,459)
Taxes on realization of the revaluation reserve	9,116	4,387	4,387	3,356	58,596	53,157	20,142
Regulatory assets and liabilities	-	-	-	(4,835)	56,783	32,535	68,076
Gains with the disposal of property, plant and equipment	(3,005)	483	483	24,317	133,407	30,731	77,129
Deferred tax credits	(49,178)	-	-	-	(31,832)	143,229	89,857
Amortization and write-offs of deferred exchange variation	-	-	-	-	-	-	(9,364)
Bresser Plan - extraordinary items	-	-	-	-	-	-	(350,000)
Others	(4,588)	(144)	(45)	-	(24,959)	(2,780)	(1,592)
Adjusted net income (loss) for the year	95,093	48,911	48,911	38,769	(430,990)	(467,427)	(285,227)
	95,093	48,911	48,911	38,769	-	-	-
Increase in long-term assets	191	21,365	21,365	64,148	132,460	239,298	229,124
Increase in active intercompany loans, net	517,114	0	9,083	44,087	41,624	29,255	-
Acquisition of property, plant and equipment	-	10,583	10,583	9,127	862,012	566,455	327,385
Increase in investments	183,991	1,210	1,210	8,068	78,492	10,323	30,033
Acquisition of property, plant and equipment	-	-	-	-	168,801	-	-
Increase in deferred charges	-	39	39	-	6,520	2,992	899
Decrease in related parties	-	-	0	-	266,439	-	-
Decrease in long-term liabilities	411,741	190,328	190,328	244,277	1,367,100	963,315	979,058
Cession of credits with subsidiary	55,541	-	-	-	55,541	-	-
Variation (net) of investment in subsidiary	-	-	-	-	183,878	-	-
Others	-	-	-	-	-	63,096	54,465
	1,263,671	272,436	281,519	408,476	2,731,877	1,407,307	1,335,737
INCREASE (DECREASE) IN WORKING CAPITAL	(22,259)	28,986	(4,942)	2,218	541,319	(216,269)	48,725
CHANGES IN WORKING CAPITAL							
Current assets:							
At beginning of the year	41,955	119,846	119,846	53,398	1,383,842	1,187,853	906,447
At end of the year	213,856	41,955	8,027	119,846	1,760,791	1,383,842	1,187,853
	171,901	(77,891)	(111,819)	66,448	376,949	195,989	281,406
Current liabilities:							
At beginning of the year	136,195	243,072	243,072	178,842	2,030,110	1,617,852	1,385,171
At end of the year	330,355	136,195	136,195	243,072	1,865,740	2,030,110	1,617,852
	194,160	(106,877)	(106,877)	64,230	(164,370)	412,258	232,681
INCREASE (DECREASE) IN WORKING CAPITAL	(22,259)	28,986	(4,942)	2,218	541,319	(216,269)	48,725

The accompanying notes are an integral part of these financial statements.

SCHEDULE 5

REDE EMPRESAS DE ENERGIA ELÉTRICA S.A. AND SUBSIDIARIES

STATEMENT OF CASH FLOW FOR THE YEARS ENDED DECEMBER 31, 2006, 2005 AND 2004 (In thousands of Brazilian reais - R\$)

		Company				Consolidated	
OPERATING ACTIVITIES	Notes	2006	2005	2004	2006	2005	2004
Net income (loss)		88,518	(22,612)	(199,449)	88,518	(22,612)	(199,449)
Expenses (revenue) not affecting cash:							
Allowance for doubtful accounts		-	110	151	18,451	(28,959)	25,964
Depreciation and amortization		-	13,541	14,352	287,635	235,660	167,504
Net financial expenses		144,210	177,677	167,464	429,870	501,589	515,214
Equity pick-up in subsidiaries	16	(293,996)	(131,735)	73,006	(173,981)	1,822	10,459
Accrual for contingencies		-	99	171	(10,305)	(7,559)	(8,234)
Write-off of fixed assets		-	1,723	3,124	109,257	127,598	90,939
Taxes on the realization of revaluation reserve		(9,116)	(4,387)	(3,356)	(58,596)	(53,157)	(20,142)
Disposal gain (loss) of property, plant and equipment		3,005	(483)	(24,317)	(133,407)	(30,731)	(77,129)
Regulatory assets / liabilities		-	-	4,835	(56,783)	(32,535)	(82,608)
Deferred tax credits		49,178	-	-	31,832	(143,229)	(89,857)
Monetary variation - deferred		-	-	-	-	-	9,364
Tariff adjustment		-	-	-	-	-	(7,777)
Bresser plan		-	-	-	-	-	370,000
Minority interest on subsidiaries net income		-	-	-	124,027	200,957	(87,470)
Other		4,588	45	-	12,949	2,780	1,592
		<u>(13,613)</u>	<u>33,978</u>	<u>35,981</u>	<u>669,467</u>	<u>751,624</u>	<u>618370</u>
Increase (decrease) in current and long-term assets							
Customers, concessionaries and permit-grantee		-	(7,467)	494	(75,092)	(82,971)	34,411
Inventories		-	244	(424)	(15,194)	8,289	(3,822)
Services rendered		(1,754)	(328)	(708)	(6,890)	2,421	(12,934)
Interest income receivable		(161,820)	36	-	-	-	-
Related parties		(517,114)	(9,083)	(44,087)	(41,624)	(29,255)	6,505
Escrow deposits		-	(4)	(6)	(6,630)	(6,077)	(2,879)
Prepaid expenses		(51)	9,893	(4,315)	92,138	98,502	(6,480)
Revenue recomposition		-	(18,087)	(23,899)	(379,345)	(327,816)	(203,507)
Other credits		-	-	-	35,020	(88,089)	(4,646)
Services rendered, Interest income receivable, diverse debtors and increase of the assets (net) for the acquisitions of subsidiary company		4,112	(1,843)	(6,771)	(26,184)	(32,637)	(96,244)
		<u>(676,627)</u>	<u>(26,639)</u>	<u>(79,716)</u>	<u>(423,801)</u>	<u>(457,633)</u>	<u>(289,596)</u>
Increase (decrease) in current and long-term liabilities							
Accounts payable		398	(15,269)	17,967	(143,276)	(105,611)	(60,221)
Consumers		-	(62)	(33)	(1,107)	1,762	1,749
Payroll		-	(382)	194	(1,096)	(879)	1,317
Income and other taxes		(17,653)	9,239	29,625	31,685	281,429	358,300
Regulatory charges payable		-	1,106	(6,572)	1,286	(21,304)	(20,438)
Related parties		286,884	53,869	118,893	(266,439)	40,914	37,274
Consumers contributions		-	1,873	1,944	278,794	93,089	91,205
Dividends and interest on shareholders' equity		-	-	-	18,571	12,308	(4,647)
Electric power concessionaires		-	-	-	-	(10,828)	(6,057)
Estimated obligations		-	775	79	(5,045)	55,371	12,779
Deferred income	28	60,000	-	-	60,000	-	-
Investment variations in subsidiary company		-	-	-	(183,878)	-	-
Assignment (net) of assets, rights and obligations - corporate restructuring process		-	(13,908)	-	-	-	-
Private pension entity an other obligations		4,722	(3,183)	(13,472)	(6,975)	17,743	(10,384)
		<u>334,351</u>	<u>34,058</u>	<u>148,625</u>	<u>(217,480)</u>	<u>363,994</u>	<u>400,877</u>
Total Activities Operations		<u>(355,889)</u>	<u>41,397</u>	<u>104,890</u>	<u>28,186</u>	<u>657,985</u>	<u>729,651</u>
INVESTMENT OPERATIONS							
Investment in fixed assets		-	(10,583)	(9,127)	(862,012)	(566,455)	(327,385)
Investments		(183,991)	(1,210)	(8,068)	(78,492)	(10,323)	(30,033)
Discount in the acquisition of investments		-	-	-	-	14,014	-
Disposal of investments		19,989	601	137,009	502,741	90,771	239,089
Investment in deferred items		-	(39)	-	(6,520)	(2,992)	(899)
Total Investment Operations		<u>(164,002)</u>	<u>(11,231)</u>	<u>119,814</u>	<u>(444,283)</u>	<u>(474,985)</u>	<u>(119,228)</u>
FINANCING OPERATIONS							
Loans and financing	21	133,710	146,384	27,351	1,672,522	747,973	445,828
Payment of loans - principal amount	21	(264,623)	(190,893)	(119,625)	(1,186,245)	(714,835)	(709,936)
Payment of loans - charges	21	(94,199)	(77,205)	(78,141)	(274,111)	(174,822)	(192,337)
Debt assumption - principal amount	21	604,767	-	-	504,519	-	-
Credit assignment		(60,870)	-	-	(60,870)	-	-
Receptions (payments) of interests on own capital and dividends		202,466	22,059	1,588	-	-	(1,843)
Total Financing Operations		<u>521,251</u>	<u>(99,655)</u>	<u>(168,827)</u>	<u>655,815</u>	<u>(141,684)</u>	<u>(458,288)</u>
TOTAL EFFECTS ON CASH AND CASH EQUIVALENTS		<u>1,360</u>	<u>(69,489)</u>	<u>55,877</u>	<u>239,718</u>	<u>41,316</u>	<u>152,135</u>
Cash and cash equivalents at the beginning of the period		1,610	71,099	15,222	260,766	219,450	67,315
Cash and cash equivalents at the end of the period		2,970	1,610	71,099	500,484	260,766	219,450
CHANGE IN CASH AND CASH EQUIVALENTS		<u>1,360</u>	<u>(69,489)</u>	<u>55,877</u>	<u>239,718</u>	<u>41,316</u>	<u>152,135</u>

The accompanying notes are an integral part of these financial statements.

REDE EMPRESAS DE ENERGIA ELÉTRICA S.A.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2006, 2005 AND 2004 (In thousands of reais - R\$, unless otherwise indicated)

1. OPERATIONS

REDE EMPRESAS DE ENERGIA ELÉTRICA S.A. formerly known as Caiuá Serviços de Eletricidade S.A., (the "Company") is a publicly-held company under the control of Empresa de Eletricidade Vale Paranapanema S.A. until October 31, 2005 its operational activity focused on the generation and distribution of electric power in the area covered by its legal concession, regulated and inspected by the Agência Nacional de Energia Elétrica (Brazilian Electric Power Agency - ANEEL) and subject to the Ministério de Minas e Energia (Ministry of Mining and Energy).

Starting on November 1, 2005, with the execution of the corporate restructuring process, the Company began to operate exclusively as the "holding" company, with the main objective of holding interests in subsidiary and associated companies linked to the generation, transmission, distribution and commercialization of electric power, as well as necessary, useful or related to the attainment of its business objectives or related to them.

2. CORPORATE RESTRUCTURING

The Company

According to article 8 of Law No.10,848/04, of March 15, 2004, regulated by Decree No. 5,163, of July 30, 2004, distribution service concessionaires are prohibited from maintaining activities related to generation and transmission in the interconnected power system other than operations such as direct or indirect participation in other companies, prompting the restructuring process of the Brazilian electric sector.

Therefore in a meeting on May 4, 2005, the Company Board of Directors approved a segregation proposal with the creation of the subsidiaries Quatiara Energia S.A. and Caiuá - Distribuição de Energia S.A., which are responsible for generation activities and electric power distribution, respectively.

According to the terms of Authoritative Resolution No. 309, of September 5, 2005, ANEEL accepted the equity version, transfer of concessions and disposal of investments for the purposes of segregating activities and restructuring the Company's shareholding.

Shareholders in the Special Shareholders' Meeting of November 01, 2005 approved the capital increase subscription to be paid-up with assignment of assets, rights and obligations in the amount of R\$ 12,147 to Quatiara Energia S.A. and R\$ 98,825, to Caiuá - Distribuição de Energia S.A. The surplus was recorded as advances for future capital increases (AFCI).

The calculated values are supported by appraisal reports issued by an independent specialist.

The main criteria for the assignment of assets, rights, and obligations to the generation and distribution companies are as follows:

- Consumer balances were integrally allocated to the distribution activity.
- Intercompany credit and debit balances, deferred tax credits, and shareholdings were maintained in the Company.
- Property, plant and equipment items were allocated in accordance with the use in each activity.
- Loan, financing, and debenture balances were segregated in accordance with the original use of resources in the respective activities.
- Taxes and contributions, except Refis and Paes installments, were allocated to the distribution activity.

Authoritative Resolution No. 309, of September 5, 2005, also accepted with the corporate restructuring process of the parent company, Empresa de Eletricidade Vale Paranapanema S.A., and its subsidiaries, as follows:

CENTRAIS ELÉTRICAS MATOGROSSEENSES S.A. - CEMAT

CEMAT Administration Council approved, the proposal for segregation of the hydraulic electric power generation activities and disposal of shareholdings on May 4, 2005. The subsidiaries Braço Norte Energia S.A., Apiacás Energia S.A., Primavera Energia S.A., Cuiabá Energia S.A., VP Energia S.A. and Juruena Energia S.A., were created to perform electric power generation activities.

The power plants integrating the isolated system will be maintained by CEMAT, as allowed by art. 8 of Law No. 10,848, of March 15, 2004, and the sole paragraph of art. 7 of the referred Authoritative Resolution.

The Company's Extraordinary General Shareholders' Meeting of November 01, 2005 approved the capital increase subscription to be paid-up with assignment of assets, rights and obligations in the amount of R\$ 13,478 for Braço Norte Energia S.A., R\$ 21,216 for Apiacás Energia S.A., R\$ 29,556 for Primavera Energia S.A., R\$ 3,260 for Cuiabá Energia S.A., R\$ 12,137 for VP Energia S.A. and R\$ 18,509 for Jurueña Energia S.A.

The criterion used to assign the assets, rights, and obligations of the generation activity is only related to assets inherent to hydraulic power plants under the corporate restructuring on November 1, 2005.

The Company's Board of Directors, during a meeting held on December 1, 2005, approved the sale of shareholdings in those generating companies, as well as of those it had in Rede Lajeado Energia S.A. to Rede Power do Brasil S.A. ANEEL through Official Letter SFF No. 2146 of December 20, 2005, approved the Stock Purchase and Sale Agreements entered into on December 23, 2005 and December 28, 2005, respectively.

CENTRAIS ELÉTRICAS DO PARÁ S.A. - CELPA

CELPA's Administration Council approved the proposal for segregation of electric power generation and distribution activities on May 4, 2005.

In relation to the segregation of CELPA's generation activities, the Administration Council, on June 15, 2005 and ANEEL, through the Authoritative Resolution No. 345, of October 18, 2005, approved the assets disposal and transfer of UHE Curuá end dash forth for this beginning dash Una's concession, including the associated transmission facilities - to Centrais Elétricas do Norte do Brasil S.A. - Eletronorte, as payment in kind of debts that CELPA had with that company.

According to the terms of Authoritative Resolution No. 309, of September 5, 2005, ANEEL accepted with the equity version, transfer of concessions and disposal of CELPA's investments in Rede Lajeado Energia S.A. to the company Rede Power do Brasil S.A. for the purposes of segregating activities and restructuring the Company's shareholding.

The report on the economic appraisal of shareholdings prepared by Moore Stephens Lima Lucchesi Independent Auditors, as well as their disposal, was approved according to the minutes of the Administration Council's Meeting of December 01, 2005. The disposal was executed by Private Instrument of Purchase and Sale of Stock Assets on December 23, 2005 signed with the company Rede Power do Brasil S.A. and approved by ANEEL through the Superintendence of Economical and Financial Inspection ruling No. 2,147 of December 20, 2005.

Power plants integrating the isolated system will be maintained by CELPA, as allowed by art. 8 of Law No. 10,848, of March 15, 2004, and the sole paragraph of art. 7 of the referred Authoritative Resolution.

COMPANHIA DE ENERGIA ELÉTRICA DO ESTADO DO TOCANTINS - CELTINS

CELTINS's Board of Directors approved the proposal for segregation of hydraulic generation and electric power transmission activities and disposal of shareholdings on May 25, 2005. The subsidiaries Isamu Ikeda Energia S.A., Socibe Energia S.A. and Alvorada Energia S.A., were created to carry out the electric power generation activity.

According to the terms of Authorizing Resolution No. 309 dated September 5, 2005, ANEEL approved the transfer of equity and concessions, and disposal of investments for the purposes of segregation of activities and restructuring of the Company's shareholdings.

Shareholders in the Special Shareholders' Meeting of November 1, 2005 approved the subscription for increase of capital to be paid-up with assignment of assets, receivables and liabilities in the amount of R\$ 82,973 to Isamu Ikeda Energia S.A., R\$ 33,968 to Socibe Energia S.A. and R\$ 17,116 to Alvorada Energia S.A.

The criteria used to assign the assets, receivables, and liabilities of the generation activity are based on the assets inherent to hydraulic plants power plants under the vertical divestiture.

Under Authorizing Resolution No. 392 dated December 22, 2005, ANEEL approved the sale of the interest the Company held in Socibe Energia S.A., Isamu Ikeda Energia S.A., Alvorada Energia S.A., Celtins Energética S.A., Ipueiras Energia S.A. and Rede Lajeado Energia S.A. to the company Curuá-Una Energia S.A.

In accordance with article 5 of Authorizing Resolution No. 309, dated September 5, 2005, which determines the segregation of the transmission activity, the Company sent to Aneel, through Official Letter VPAR/823/05 of December 27, 2005, the Electricity Transmission Assets Purchase and Sale Agreement entered into on December 23, 2005 with the company Curuá-Una Energia S.A. and approved by ANEEL Resolution No. 227 of February 3, 2006.

The financial appraisal of shareholdings prepared by Moore Stephens Lima Lucchesi Independent Auditors, as well as their disposal, was approved at the Board of Directors Meeting on December 1, 2005.

The company Curuá-Una Energia S/A had its name changed to Tocantins Energia S.A. during an Extraordinary General Meeting and registered on December 26, 2005.

EMPRESA ELÉTRICA BRAGANTINA S.A. E COMPANHIA FORÇA E LUZ DO OESTE

Those subsidiaries only performing electric power distribution activities and not possessing electric power generation plants linked to their distribution system being in accordance with all determinations of the pertinent legislation, proceeded with the total disposal and write off of existing shareholdings.

COMPANHIA NACIONAL DE ENERGIA ELÉTRICA

Since the company performs electric power distribution activities, within a market inferior to 500 (five hundred) GWh/year, it is not obliged to restructure its generation and distribution activities. Therefore, the UHE Reynaldo Gonçalves assets will be maintained by the Company, and all of the energy produced will be for its own market.

The Company, being in accordance with all determinations of the pertinent legislation, proceeded with the total disposal and write off of existing shareholdings.

3. CONCESSIONS:

The legal concession areas of companies it controls directly or indirectly, in electric power distribution, are as follows:

Directly controlled companies:	Concession areas	Area in Km ² (*)	Approximate number of assisted consumers (*)	Number of covered municipal districts (*)
Caiuá - Distribuição de Energia S.A.	Presidente Prudente's region in São Paulo State (SP) west	9,149	193,921	24
Empresa de Distribuição de Energia Vale Paranapanema S.A.	Assis's region in São Paulo State (SP) west	11,780	146,892	27
Empresa Elétrica Bragantina S.A.	Bragança Paulista's region in São Paulo State (SP) and Cambuí in Minas Gerais State (MG)	3,493	110,651	15
Cia. Força e Luz do Oeste	Guarapuava municipal district in Paraná State (PR)	1,200	44,894	1
Cia. Nacional de Energia Elétrica	Catanduva and Novo Horizonte regions in São Paulo State (SP)	4,500	90,303	15
Cia. de Energia Elétrica do Estado do Tocantins - Celtins	Tocantins State (TO)	277,621	344,988	139
Centrais Elétricas Matogrossenses S.A. - Cemat	Mato Grosso State (MT)	903,358	827,762	141
Controlada Indireta: Centrais Elétricas do Pará S.A. - Celpa	Pará State (PA)	1,247,690	1,392,930	143
Sum		2,458,791	3,152,341	505
Rede Comercializadora de Energia S.A.			13	
TOTAL		2,458,791	3,152,354	505

(*) Unaudited information.

The main concessions of the company and the companies it controls, directly or indirectly in the electric power generation activities are as follows:

Company/UHE	River	Installed capacity MW (*)	Used capacity MW (*)	Concession date (*)	Maturity date (*)
Cia. Nacional de Energia Elétrica:					
UHE Reynaldo Gonçalves	Ribeirão dos Porcos	1	0.7	12/1/1998	7/7/2015
Juruena Energia S.A.:					
UHE Juína	Aripuanã	5.3	4.6	12/11/1997	12/11/2027
UHE Aripuanã	Aripuanã	0.8	0.8	12/11/1997	12/11/2027
Tangará Energia S.A.:					
UHE Guaporé	Guaporé	120	80	3/13/2000	7/7/2025
Rede Lajeado Energia S.A.:					
UHE Luiz Eduardo Magalhães	Tocantins	902.5	902.5	12/16/1997	12/16/2033

Company	Concession/ Thermoelectric Plants	Installed capacity MW (*)	Used capacity MW (*)	Concession date (*)	Maturity date (*)
Centrais Elétricas Matogrossenses S.A. - Cemat	Concession of 34 Thermoelectric Power Plants, the most important of which are Juína, Juara, Sapezal, São José do Rio Claro, Querência do Norte and Vila Rica, with over 5 MW of installed capacity each	98.52	62.31	12/10/1997	12/10/2027
Centrais Elétricas do Pará S.A. - Celpa	Concession of 17 Thermoelectric Power Plants, the most important of which are Santana do Araguaia, Novo Progresso, Castelo dos Sonhos and Jacareacanga, with over 1 MW of installed capacity	29.13	12.41	7/28/1998	7/28/2028

(*) Unaudited information.

The consolidated subsidiaries' electric power self-generation represents approximately 26.83% of the distributed energy, with the remaining portion supplied primarily by Duke Energy and AES Tietê, in São Paulo State, Cemig in Minas Gerais State, Eletronorte, Furnas and Chesf in Mato Grosso, Tocantins and Pará States and Copel in Paraná State.

As of December 31, 2006, its subsidiaries employed 5,572 employees and 4,507 third party laborers (5,341 and 3,824 in 2005 and 5,861 and 3,707 in 2004), to render the services related to the concessions mentioned above.

4. BASIS OF PREPARATION AND PRESENTATION OF FINANCIAL STATEMENTS

The financial statements were prepared and are presented in accordance with accounting practices set forth in the Corporate Legislation (Laws No. 6,404/76 and 9,457/97), CVM's supplementary provisions and the Concession-Granting Authority - ANEEL standards applicable to the public electric power service concessionaires.

The Balance Sheet, the Statement of Income, the Statement of Changes in Financial Position and the Statement of Cash Flows for the year ended December 31, 2005, were restated, when applicable, for comparison purposes, as follows:

	Company		2005 Consolidated	
	Disclosed	Restated	Disclosed	Restated
Balance Sheet				
Current assets	8,027	41,955	-	-
Dividends and interest receivable on capital	-	33,928	-	-
Consumers				
Prepaid expenses				
Non-current assets	1,725,038	1,691,110	-	-
Total long-term assets	81,293	47,365	-	-
Related parties	33,930	2	-	-
Statement of Income				
Gross Operating Revenue	-	-	4,472,454	4,219,862
Other revenue	-	-	305,594	53,002
Net Operating Revenue	-	-	3,049,131	2,796,539
Operating Costs	-	-	(857,607)	(605,015)
Raw material and inputs for production of electricity	-	-	(250,234)	-
Subsidy - CCC	-	-	-	262,784
Other expenses	-	-	10,192	(13,115)

As instructed by SFF/ANEEL Circular Letter No 2.396/2006, of December 28, 2006, some additional information is being provided in notes and supplementary exhibits, pursuant to the following main accounting practices.

5. PRINCIPAL ACCOUNTING PRACTICES

Marketable securities: stated at cost, plus respective income earned through the date of the financial statements. Consumers: these include electric power supply billed and unbilled to final consumers, to others concessionaires, in accordance with amounts made available by the Electric Power Commercialization Chamber ("CCEE") and balances related to regulatory assets of several natures, recorded on the accrual basis.

Allowance for doubtful accounts: set up in the amount considered sufficient by the Company's management to cover possible losses on the realization of accounts receivable whose recovery is considered unlikely.

Inventories (Including Property, Plant and Equipment): materials in stock classified in current assets (maintenance storeroom and administrative materials) and those for investment classified in non-current assets – Property, Plant and Equipment (warehouse at the work site) are recognized at average acquisition cost.

Investments: include permanent investments in subsidiaries and associated companies and are evaluated on the equity method, whereas other investments are shown at the acquisition cost, net of provision for reduction to market values, where applicable. This account also includes the registered goodwill in the acquisition of subsidiaries, due to the difference between the acquisition price and the equity book value of the acquired company. The difference is amortized proportionally to the net income curves projected for the remaining period of the concession contract for each subsidiary, according to ANEEL's determinations.

Property, plant and equipment: except for cars, trucks and furniture and fixtures, these assets are stated at the acquisition or construction cost, plus monetary restatement up to December 31, 1995, revaluated in August 2001 and revised in May 2005. Depreciation of revaluated assets is calculated on the straight-line method at annual rates varying between 0.75% and 3.09% for generation; between 2.60% and 4.78% for distribution; 0.09% and 7.42% for management 2.92% and 4.78% for transmission, and 0.98% and 4.63% for commercialization. The depreciation of non-revaluated assets and those acquired after May 31, 2005 is calculated on the straight-line method at annual rates in accordance to ANEEL's Resolution 44 dated March 17, 1999.

Revaluation reserve: this reserve is realized proportionally to depreciation and disposal of revaluated fixed assets and then reclassified as retained earnings, net of the income tax and social contribution effects.

Indirect costs of constructions in progress: a portion of central administration expenses is allocated to constructions in progress. This allocation is made each month based on direct expenses with personnel and third party labor, allocated to constructions in progress.

Loans, financing, and debentures: these are restated based on the monetary and/or exchange variation, interests and financial charges established in each contract incurred up to the balance sheet date. Except for the portion appropriated to the cost of constructions in progress, these adjustments are allocated to income for the period as financial expenses.

Provision for contingencies: this provision is recorded in accordance with the estimated risks of lawsuits underway, and only losses rated as probable are included. Figures are based on economic aspects, management's evaluation and legal counsel's opinions regarding the lawsuits underway and other contingencies known on the balance sheet dates.

Leasing transactions: financial lease is not recorded in the balance sheet as a liability. The lease payment by lesser are charged at an expense when incurred. The asset residual value is recognized in the property, plant, and equipment when the payments are made.

Income and social contribution taxes: the provision for income tax and social contribution is calculated based on the taxable income and the social contribution calculation basis, at the rates in effect on the balance sheet date. Deferred taxes are calculated based on temporary differences, tax losses and social contribution negative basis, at the rates in effect on the balance sheet date. The tax losses and social contribution negative basis can be offset annually taking into account the limit of up to 30% of the taxable income for the year.

Recording of energy purchase and sale operations at the Electric Power Commercialization Chamber – CCEE: the purchases (cost of energy purchased) and the sales (supply revenue) are recorded on the accrual basis in accordance with information disclosed by CCEE, the entity responsible for the determination of energy purchase and sale operations. In the months that this information is not provided timely by CCEE, the amounts are estimated by the Company's management, based on certainly parameters available in the market.

Supplementary pension plan: costs, contributions, and actuarial liabilities are determined by independent actuaries on the balance sheet date. Since December 31, 2001, these amounts have been determined and recorded in accordance with CVM Deliberation No. 371/00.

Other receivables and payables: other current and non-current assets and liabilities are subject to monetary or exchange rate variation under legislation or contractual clauses, and are adjusted according to indexes established in the respective instruments to reflect their values at the date of the financial statements.

Derivatives: The Company and its subsidiaries enter into swap derivative contracts to manage their exposure to market risks associated with changes in interest and exchange rates. The Company accounts for derivative contracts on an accrual basis. Gains or losses arising from these contracts are recognized as adjustments in financial revenues or expenses. The Company's derivative contracts are entered into with financial institutions of high repute and significant experience with such financial instruments. The Company does not have derivative contracts for trading or speculative purposes.

Estimates: The preparation of financial statements in accordance with Brazilian Accounting Practices requires the Company's management to make estimates and assumptions that affect the amounts of assets, liabilities, revenues, expenses, and the information disclosed in the financial statements. The actual results of the transactions may ultimately differ from these estimates upon their realization in subsequent periods.

Information on quantity of shares and earnings/loss per share: as required by Brazilian accounting practices, information on quantity of shares and earnings/loss per share refers to the historical number of shares effectively outstanding at the balance sheet date. Loss per share is determined by dividing the Company's net loss for the year by the number of shares outstanding at year-end.

Due to the Company's deverticalization process, and in order to meet pertinent legislation, the statement of income presented refers to the electric power distribution activity in the period from January to October 2005, whereas the period as holding was between November and December 2005.

6. CONSOLIDATION OF FINANCIAL STATEMENTS

The Company's consolidated financial statements include the balance of accounts of all its directly or indirectly controlled subsidiaries. Due to a shareholders' agreement, the proportional consolidation method is used for jointly controlled subsidiaries, whereby the assets, liabilities, and income accounts are consolidated based on the proportion of the equity interest the Company holds in the capital of the investee. The balance and intercompany transactions as well as unearned income were eliminated in the consolidation.

All significant intercompany accounts and transactions including investments, accounts receivable, dividends receivable, revenues and expenses among consolidated companies and unrealized income are eliminated upon consolidation. Transactions and balances with related parties, primarily shareholders and investees, are described in the accompanying notes.

There is no reciprocal shareholding among the Companies, and the noncontrolling shareholders' participation is recorded in a specific account named minority interest.

The goodwill in the acquisition of investments in the controlled companies included in the consolidation is recorded in a specific account of permanent assets - Investments.

The consolidated financial statements include the accounts of the Company and its directly or indirectly controlled subsidiaries, as follows:

Rede Empresas de Energia Elétrica S.A. and Subsidiaries

Subsidiaries:	Activity	Holding Percentage (%)		
		2006	2005	2004
Empresa Elétrica Bragantina S.A.	Distribution	91.45	91.45	91.45
Cia. Nacional de Energia Elétrica	Distribution	98.69	98.69	98.69
Cia. Força e Luz do Oeste	Distribution	97.70	97.70	97.7
Cia. de Energia Elétrica do Estado do Tocantins - Celtins	Distribution	50.86	50.86	50.86
Centrais Elétricas Matogrossenses S.A. - Cemat	Distribution	37.54	37.54	37.54
Centrais Elétricas do Pará S.A. - Celpa	Distribution	43.43	43.43	33.93
QMRA Participações S.A.	Holding	65.00	65.00	65
Rede Lajeado Energia S.A.	Generation	59.84	99.86	69.15
Tangará Energia S.A.	Generation	67.32	61.67	99.7
Rede Peixe Energia S.A.	Generation	-	99.70	99.7
Rede Power do Brasil S.A.	Service Rendering	99.80	99.80	-
Caiuá Distribution de Energia S.A.	Distribution	100.00	100.00	-
Quatiara Energia S.A.	Generation	-	100.00	-
Investment indirectly in controlled subsidiaries:				
Celtins Energética S.A.	Generation	-	99.60	50.86
Alvorada Energia S.A.	Generation	-	99.60	-
Isamu Ikeda Energia S.A.	Generation	-	99.60	-
VP Energia S.A.	Generation	-	99.80	37.59
Ipueiras Energia S.A.	Generation	99.30	99.30	50.71
Apiacás Energia S.A.	Generation	-	99.80	-
Braço Norte Energia S.A.	Generation	-	99.80	-
Cuiabá Energia S.A.	Generation	-	99.80	-
Juruena Energia S.A.	Generation	99.80	99.80	-
Primavera Energia S.A.	Generation	-	99.80	-
Tocantins Energia S.A.	Transmission	99.60	99.60	-

The Company's shareholders' equity and net loss are reconciled with consolidated financial statements as follows:

	Net Loss for the Year			Shareholders' Equity		
	2006	2005	2004	2006	2005	2004
Company's balances	88,518	(22,612)	199,449	755,075	666,557	192,228
Unrealized profit				(72,996)	(75,922)	(78,839)
Subtotal	88,518	(22,612)	199,449	682,079	590,635	113,389
Funds for founder share acquisition	-	-	-	-	266,798	-
Funds for increase of capital	-	-	-	51,044	268,232	51,045
Consolidated balances	88,518	(22,612)	199,449	733,123	1,125,665	164,434

7. MARKETABLE SECURITIES

Type of investment	Company			Consolidated		
	2006	2005	2004	2006	2005	2004
CDB	1,380	-	266	224,248	92,169	9,143
CDI	-	-	4,985	163,979	40,836	70,399
Debentures	-	-	35,871	-	1,195	36,571
FAQ DI	-	-	-	65	1,144	-
FIF	-	-	12,828	-	35,120	25,864
Fixed Rate Fund	-	-	-	23,980	-	-
Other	-	-	2,773	1,685	663	2,978
	1,380	-	56,723	413,957	171,127	144,955

Financial investments that can be redeemed at any moment by the Company and its subsidiaries.

8. CONSUMERS AND DISTRIBUTIONS

a. Composition:

	2006	2005	2004
Consumers:			
Billed	585,482	470,979	510,114
Not billed	160,171	137,811	98,455
	745,653	608,790	608,569

Rede Empresas de Energia Elétrica S.A. and Subsidiaries

Consumer class:	Due			Total	2006	2005	2004
	Balances coming due	For up to 90 days	For over 90 days				
Current assets:							
Residential	146,757	86,793	49,189	135,982	282,739	227,723	179,400
Industrial	78,231	26,366	36,727	63,093	141,324	112,951	90,284
Trade, services and other activities	89,444	40,626	31,101	71,727	161,171	136,827	113,339
Rural	16,303	7,276	4,635	11,911	28,214	23,579	15,141
Public sector:				-	-		
Federal government	4,338	2,251	1,622	3,873	8,211	2,774	6,824
State government	12,510	8,524	3,018	11,542	24,052	6,055	13,568
Municipal government	24,538	12,136	3,875	16,011	40,549	41,773	60,347
Public lighting	14,046	5,666	2,578	8,244	22,290	18,766	43,443
Public service	11,222	10,829	11,711	22,540	33,762	29,930	55,205
Revenue recomposition (*)	-	-	-	-	-	8,412	31,018
Tariff reduction - Irrigation and Aquaculture	3,341	-	-	-	3,341	-	-
Subtotal - consumers	400,730	200,467	144,456	344,923	745,653	608,790	608,569
Consumers' financial participation	17,683	425	852	1,277	18,960	21,559	26,098
Commercialization at CCEE	6,146	-	-	-	6,146	2,812	2,800
Emergency consumption reduction program	-	-	559	559	559	689	3,806
Electric network usage charges	5,282	-	-	-	5,282	2,976	1,662
Emergency capacity charges	-	2	4,356	4,358	4,358	7,768	10,058
Free consumer (*)	109	-	-	-	109	32,714	36,761
Concessionaries and permit-grantee	595	-	-	-	595	2,068	2,360
Others	5,134	5,911	4,628	10,539	15,673	14,968	12,168
Total	435,679	206,805	154,851	361,656	797,335	694,344	704,282
Long-term							
Consumers	91,861	-	104,897	104,897	196,758	167,124	49,112
Revenue recomposition (*)	16,790	-	-	-	16,790	-	11,455
Consumers' financial participation	77,766	-	-	-	77,766	84,237	90,806
Commercialization at CCEE	13,150	-	-	-	13,150	10,509	10,509
Free consumer (*)	16,709	-	-	-	16,709	-	13,280
Allowance for doubtful accounts	(16,709)	-	-	-	(16,709)	-	-
Others	598	-	-	-	598	528	246
Total	200,165	-	104,897	104,897	305,062	262,398	175,408

(*) See note 37

(a) Commercialization at CCEE

The "Consumers" account balance includes R\$ 19,296 referring to commercialization of energy in the short- and the long-term, based on calculations made and disclosed by CCEE up to December 2005. According to ANEEL's Resolution No. 552 of October 14, 2002, short-term energy transactions unsettled upon maturity must be negotiated by the market agents.

After the adjustments made by CCEE, the settlement of electric power purchase and sale operations performed between September 2000 and December 2002 was completed in July 2003. The other electric power purchase and sale operations performed in 2004 are being settled on a monthly basis.

The amounts relating to short-term energy and free energy commercialization may be changed depending on the outcome of ongoing legal actions filed by companies in this sector regarding the interpretation of market rules in effect.

(b) Subsidy to Irrigation:

Regulatory Resolution 540 dated October 1, 2002 implemented Law 10.438 of April 26, 2002, which extended the special electricity tariff discounts granted to irrigation consumption in the period between 9:30pm and 6:00am of the following day.

Such legal device extended the period established in DNAEE Ordinance No. 105, dated April 3, 1992, from 11:00pm to 5:00am of the following day, whereby special discounts were granted to consumers of Group A (high voltage) and Group B (low voltage).

Aneel, through Regulation Resolution No. 207 of January 9, 2006, which "establishes the procedures to grant special tariff discounts to the electricity consumed in irrigation and aquaculture", provides in article 6 that "the financial value resulting from the discounts established in this Resolution is a right of the concessionaire to be offset in the first tariff adjustment or revision after the corresponding assessment."

b. Allowance for doubtful accounts

Composition:

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Residential	(36,102)	(27,414)	(18,482)
Industrial	(4,927)	(6,783)	(10,925)
Trade, services and other activities	(10,050)	(10,439)	(13,316)
Rural	(751)	(647)	(559)
Public sector	-	(82)	(29,536)
Other income	(4,033)	(3,633)	(5,239)
Consumers subtotal	<u>(55,863)</u>	<u>(48,998)</u>	<u>(78,057)</u>
Other receivables	<u>(2,542)</u>	<u>(2,239)</u>	<u>(2,139)</u>
	<u>(58,405)</u>	<u>(51,237)</u>	<u>(80,196)</u>
Long-term allowance of doubtful accounts			
Provision of Extraordinary Tariff			
Recomposition loss margin	<u>(16,790)</u>	<u>-</u>	<u>-</u>
Total	<u>(75,195)</u>	<u>(51,237)</u>	<u>(80,196)</u>

Operations in the period:

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Balance at beginning of the year	51,237	80,196	54,232
Acquisition of EDEVP S.A - June/2006	930	-	-
Loss for the year	(5,445)	(317)	(10,458)
Losses recovery	2,881	3,268	4,138
Complementary provision	<u>25,592</u>	<u>(31,910)</u>	<u>32,284</u>
Balance at end of year	<u>75,195</u>	<u>51,237</u>	<u>80,196</u>

The allowance for doubtful accounts was recognized considering the following criteria:

- Residential customer bills due for over 90 days.
- Commercial customer bills due for over 180 days.
- Industrial, rural, governmental, public lighting, public services, and other consumers' bills due for over 360 days.
- After a judicious analysis, the Company's management excluded overdue negotiated bills.

The Company, its management and subsidiaries have a group of professionals to evaluate the quality and possibilities of recovery of overdue credits referring to the supply of electricity to the various segments of consumers.

The increase in the allowance for doubtful accounts in the year 2006, corresponds mainly to credits in arrears with municipal governments, public agencies integrated with public municipalities administrations, public services and state and federal departments, reclassified as non-current assets, as well to the provision for Revenue Loss (Extraordinary Tariff Recomposition) and for Free Consumers recognized in the subsidiary Celpa in December 2006, in view of the fact that the period estimated for recovery by Aneel was not enough. Based on studies and opinion of its legal counsel, the management understands that the current collection procedures established, payment plans in installments as well as collection attempts and agreements made with the various government and public service departments other than court procedures, which comprise, among others, the issuance of precatórios (*) as guarantee for the credits and the application of the provisions laid down in the fiscal liability law in effect, minimize the potential risk of uncertainties in the receipt of the said credits.

(*) In Brazil, judgments against the government must be satisfied out of budgetary appropriations upon issuance of a special judicial order called a *precatório*.

9. TAXES AND SOCIAL CONTRIBUTIONS TO OFFSET

	Company			Consolidated		
	2006	2005	2004	2006	2005	2004
Income tax	3,387	2,038	1,877	63,089	53,749	53,399
Social contribution tax	-	-	35	19,827	18,278	16,018
ICMS	-	-	1,331	39,821	26,724	12,360
Non-cumulative PIS	-	-	-	2,051	2,032	2,152
Non-cumulative COFINS	-	-	-	2,634	2,794	3,705
Finsocial	-	-	-	11,202	-	-
INSS	-	-	-	8,522	212	241
Various	3	-	-	407	-	26
Total	<u>3,390</u>	<u>2,038</u>	<u>3,243</u>	<u>147,553</u>	<u>103,789</u>	<u>87,901</u>

10. REVENUE REDUCTION - LOW INCOME CONSUMERS

Social Tariff - to Low-Income Consumers - Through Law 10,438, art.1, of April 26, 2002, the federal government set the social tariff for low-income consumers, reducing the Companies' operating revenue. This was compensated by Presidential Decree No. 4,538 of December 23, 2002, which established the sources for the concession and economic subvention to ensure that electricity be reasonably priced for end-consumers in the residential low-income classes, i.e., consuming less than 80 kwh per month or between 80 and 220 kwh per month. The latter requires consumers to meet the requirements of law 10,604,art.5 of December 17,2002.

Balance on December 31, 2004	10,177
Year recorded	71,130
Received subsidy	(48,878)
Calculation revision	(4,669)
Balance on December 31, 2005	27,760
Year recorded	81,631
Received subsidy	(93,013)
Calculation revision (a)	1,051
Balance on December 31, 2006	17,429

(a) In 2006, all subsidiaries carried out revisions of the revenue reduction calculation criteria, as per ANEEL Resolution No. 089/2004, which led to a net increase in the balance of the account "Revenue Reduction - low income consumers" amounting to R\$1,050.

11. PREPAID EXPENSES

	Current			Non - Current		
	2006	2005	2004	2006	2005	2004
Part A -CVA - Cost Variation Offsetting Account						
Period from 1/1/2001 to 10/25/2001 (a)	7,599	-	2,015	-	6,770	41,322
Period from 2/3/2003 to 2/2/2004 (b)	2,540	6,882	-	-	463	12,269
Period from 7/4/2002 to 7/3/2003 (b)	153	891	1,094	-	-	657
Period from 7/4/2003 to 7/3/2004 (b)	-	177	998	-	-	-
Period from 8/7/2002 to 8/6/2003 (b)	99	4,496	6,798	-	-	3,897
Period from 8/7/2003 to 8/6/2004 (b)	-	601	10,930	-	-	-
Period from 4/8/2002 to 4/7/2003 (b)	-	5,846	19,824	-	-	4,152
Period from 4/8/2003 to 4/7/2004 (b)	-	109	5,763	-	-	-
Period from 4/8/2004 to 4/7/2005 (b)	845	5,965	-	-	-	17,453
Period from 7/4/2004 to 7/3/2005 (b)	63	932	-	-	-	1,180
Period from 8/7/2004 to 8/6/2005 (b)	2,131	5,423	-	-	-	10,862
Period from 2/3/2004 to 2/2/2005 (b)	662	1,739	-	-	-	13,165
Period from 1/3/2005 to 4/9/2006 (b)	6,545	-	-	78	9,964	-
Period from 8/7/2005 to 8/6/2006 (b)	8,702	-	-	144	5,733	-
Period from 4/8/2005 to 4/7/2006 (b)	19,514	-	-	-	23,693	-
Period from 7/4/2005 to 7/3/2006 (b)	3,313	-	-	8,668	1,743	-
Period from 8/7/2006 to 8/6/2007 (b)	-	-	-	1,647	-	-
Period from 5/10/2006 to 5/9/2007 (b)	-	-	-	8,584	-	-
Period from 4/8/2006 to 4/7/2007 (b)	-	-	-	54,093	-	-
Period from 2/3/2006 to 2/2/2007 (b)	-	-	-	312	-	-
Period from 7/4/2006 to 7/3/2007 (b)	1	-	-	6,767	-	-
Subtotal	52,167	33,061	47,422	80,293	48,366	104,957
Regulatory assets PIS/COFINS (c)	17,050	29,358	14,530	19,550	56,005	72,912
Deferral of Tariff Recomposition	39,053	25,329	7,777	-	-	-
Others	2,853	7,186	2,636	5,422	3,182	-
Total	111,123	94,934	72,365	105,265	107,553	177,869

As per the requirements included in Provisional Measure No. 14, dated December 21, 2001, converted into Law 10,438 as of April 26, 2002, Administrative Rule 296, dated October 25, 2001, No. 25, of January 24, 2002, as well as supplementary ANEEL resolutions, the Company and its subsidiaries recorded as pre-paid expenses the variation in values of items named "Portion A" (non-manageable costs) that will be recovered through future tariff increases.

- (a) The portion referring to this period was included in the Extraordinary Tariff Adjustment (see Note No. 37).
- (b) As set forth by the Interministry Ordinance No. 116, of April 4, 2003, the cost variation offsetting account (Part A – CVA) should be offset against annual tariff adjustments in the electricity tariffs of the subsidiaries.
- (c) Refers to the financial impact resulting from the increases in tax rates that occurred after December 2002 for PIS and February 2004 for COFINS, without tariff coverage, that are being incorporated in the tariff at the time of its subsidiaries annual tariff adjustments of its subsidiaries.

The differences between the impact calculated by the companies and the value already included in the tariff will be implemented by ANEEL in the next annual tariff adjustment.

Annual portions, amounting to R\$ 25,156, will be added to Part B every year for the annual tariff adjustments to be approved for the years 2005 to 2007, which amounts will be adjusted upon the annual tariff adjustment. The amounts deferred and accounted for through December 2006 total R\$ 39,053.

Electricity Surplus:

Article 38 of Decree No. 5.163 dated July 30, 2004 determines that for the pass-on of electricity acquisition costs to the final consumers' tariffs ANEEL should consider up to one hundred and three percent of the total amount of contracted electricity in relation to the annual load of supply by the distribution agent.

The definition of criteria to pass on that over-contracted electricity cost was submitted to Public Hearing 002/2006 established on February 22, 2006 and is still in progress. The Company recorded during the year an amount of R\$ 368, as seen in the market calculation spreadsheet. The subsidiaries recognized in the year 2006 an amount of R\$ 368 as found in the market calculation report.

PROINFA:

Law 10.438/2002, article 3, established PROINFA, with the objective of increasing the electric power in the National Interlinked Electric System (Sistema Elétrico Interligado Nacional-SIN) produced by Autonomous Independent Producers by means of wind energy, small hydroelectric power plants and biomass power plants.

ANEEL's Approval Resolution No. 250, of November 28, 2005, established for 2006, the costing and electricity shares referring to PROINFA. The Company made the corresponding accounting records.

The subsidiaries recorded in the period the following figures: initial balance R\$260, deferral R\$ 6,827, adjustment R\$ 684, amortization R\$ 3.592, and final balance R\$ 4,179.

12. ACCOUNTS RECEIVABLE

	Company			Consolidated		
	2006	2005	2004	2006	2005	2004
<u>Current assets</u>						
Itamarati Norte S.A. Agropecuária (b)	5,734	-		5,734	-	
Other accounts receivable	-	-	1,235	30,863	13,719	12,998
	5,734	-	1,235	36,597	13,719	12,998
<u>Non-current assets</u>						
Credits acquired from third parties (a)	-	-	12,607	371,638	371,638	353,357
(-) Negative goodwill (a)	-	-	(8,570)	(264,119)	(264,119)	(243,068)
Itamarati Norte S.A. Agropecuária (b)	52,071			52,071	-	
Other accounts receivable	-	-		17,248	15,182	1,785
	52,071	-	4,037	176,838	122,701	112,074

- a. Refers to credits acquired in the years 2003 and 2004 and destined to settle federal taxes and contributions. The formalization of these acquisitions occurred through Credit Assignment Instruments properly registered at the Registry of Deeds and Documents. The credits result from an indemnity action, with the final judgment not subject to further appeal, that held the Federal government liable for damages to the previous owners of credits and bearer securities, "Cautions of Obligations," issued by Eletrobrás. With the Company's joining the Extraordinary Tax Debt Installment Payment Program – PAEX on September 15, 2006, set forth by Provisional Measure No. 303/2006, the Company gave up the tax offsetting of those credits and intends to obtain satisfaction in court.
The negative goodwill the Company incurred during the acquisitions, which should be reflected on the statement of income when the credits are settled, as a result of legal proceedings.
- b. Refers to credits received from Denerge Desenvolvimento Energético S.A. (see note item b).

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13. OTHER ASSETS

	Current			Non - Current		
	2006	2005	2004	2006	2005	2004
<u>Consolidated</u>						
Reimbursable expenses	2,079	2,243	1,083	-	-	-
Retirements in progress	5,961	18,386	7,754	-	-	-
Collection agreements	3,654	4,906	4,327	-	-	-
Recoverable taxes and social contribution	-	-	-	6,801	5,465	-
Overpayment - PIS	134	204	127	-	-	-
Overpayment - COFINS	8,476	4	3	-	-	-
Overpayment - IRRF	1,478	-	-	-	-	-
Overpayment - IOF	1,122	-	-	-	-	-
IOF recoverable	19,667	5,164	-	-	-	-
Notes receivable	6,717	5,428	4,865	-	-	-
Accounts receivable	7,670	5,779	-	1,227	1,227	8,842
Disposal of assets and rights	11,252	7,543	9,173	6,622	6,689	-
Withdrawal the largest of RGR	-	-	661	-	-	-
Escrows and guarantee deposits	66	1,000	1,027	-	-	-
Sale contracts	813	996	1,593	-	-	2,136
Advances to suppliers	5,674	7,455	6,564	-	-	-
Checks collection	4,964	4,736	3,156	-	-	-
Disposal share	-	-	6,980	-	-	-
Electricity bill credits - month	4,214	3,447	3,031	-	-	-
Various debtors	4,506	4,556	5,848	637	715	2,445
Others	9,550	8,715	6,167	3,169	2,085	5,129
	<u>97,997</u>	<u>80,562</u>	<u>62,359</u>	<u>18,456</u>	<u>16,181</u>	<u>18,552</u>

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Rede Empresas de Energia Elétrica S.A. and Subsidiaries

	Company		
	2006	2005	2004
ASSETS:			
<u>Non-current</u>			
Debt assumption, credit granting and other agreements (b):			
Empresa de Eletricidade Vale Paranapanema S.A.	157,940	-	-
Denerge Desenvolvimento Energético S.A.	35,446	-	-
QMRA Participações S.A.	101,408	-	-
Ipueiras Energia S.A.	10,748	-	-
Loan contract (b) and (c):			
QMRA Participações S.A.	63,863	-	-
Centrais Elétricas do Pará S.A - Celpa	39,059	-	-
Cia de Energia Elétrica do Estado do Tocantins - Celtins	8,005	-	-
	110,927	-	-
Current account Oct 31, 2005 (d):			
Empresa de Eletricidade Vale Paranapanema S.A.	4,764	-	-
QMRA Participações S.A (b)	127,656	-	-
Ipueiras Energia S.A (b)	656	-	-
Denerge Desenvolvimento Energético S.A.	3,083	-	-
	136,159	-	-
Contract for the purchase and sale of shares (f)			
Denerge Desenvolvimento Energético S.A.	11,187	-	-
Other contracts			
Cia Geral	324	-	-
Advance	2	2	-
	326	2	-
TOTAL	564,141	2	-

Rede Empresas de Energia Elétrica S.A. and Subsidiaries

	2006	Company 2005	2004
LIABILITIES			
<u>Non - Current</u>			
Suppliers - Current			
Rede Lajeado Energia S.A			3,935
Rosal Energia S.A			571
Rede Comercializadora de Energia S.A			1,557
Total			<u>6,063</u>
Loan contract (c):			
Denerge Desenvolvimento Energético S.A	-	111,965	111,690
<u>Non - Current</u>			
Current account Oct. 31, 2005 (d):			
Rede Power do Brasil S.A.	120,199	-	-
Current account Dec. 31, 2006 (e):			
Centrais Elétricas do Pará S.A. - Celpa	212,561	188,667	-
Empresa Elétrica Bragantina S.A.	157,032	139,412	112,372
Cia Nacional de Energia Elétrica S.A.	83,520	9,148	108,927
Centrais Elétricas Matogrossenses S.A. - Cemat	59,739	30,611	500,800
Cia de Energia Elétrica do Estado do Tocantins - Celtins	28,071	15,493	
Empresa de Distribuição de Energia Vale Paranapanema S.A.	13,074	-	
Cia Força e Luz do Oeste	1,955	434	27,466
Rede Lajeado Energia S.A.	23,986	12,291	22,932
Tocantins Energia S.A.	26,041	-	
Tangará Energia S.A.	8,736	-	
Rede Comercializadora de Energia S.A.	5,846	3,054	
Celtins Energética S.A.	-	1,120	
Empresa de Eletricidade Vale Paranapanema S.A.	-	17,221	
Denerge Desenvolvimento Energético S.A.	-	19,483	14,908
Rede Power do Brasil S.A.	-	69	
	<u>620,561</u>	<u>437,003</u>	<u>787,405</u>
Advances	521	-	-
Contract for the purchase and sale of shares (f):			
Empresa de Eletricidade Vale Paranapanema S.A.	127,676	-	-
Denerge Desenvolvimento Energético S.A.	63,512	-	-
	<u>191,188</u>	<u>-</u>	<u>-</u>
TOTAL	<u>932,469</u>	<u>548,968</u>	<u>899,095</u>

Rede Empresas de Energia Elétrica S.A. and Subsidiaries

	2006	Consolidated 2005	2004
ASSETS			
<u>Non - current</u>			
Cost of electric power purchases (a)			
Rede Comercializadora de Energia S.A	-	-	72,163
Total	<u>-</u>	<u>-</u>	<u>72,163</u>
Debt assumption, credit granting and other agreements (b)			
Empresa de Eletricidade Vale Paranapanema S.A	157,940	-	-
Denerge Desenvolvimento Energético S.A.	<u>48,682</u>	<u>-</u>	<u>-</u>
	206,622	-	-
Current account until Aug. 31, 2004 (e):			
Empresa de Eletricidade Vale Paranapanema S.A	-	60,847	51,133
Denerge Desenvolvimento Energético S.A.	-	476	1,016
BBPM Participações S.A.	<u>-</u>	<u>10,389</u>	<u>8,973</u>
	-	71,712	61,122
Current account after Sep. 1, 2004 (e):			
Empresa de Eletricidade Vale Paranapanema S.A	-	39,871	9,246
Empresa de Distribuição de Energia Vale Paranapanema S.A.	<u>-</u>	<u>2,703</u>	<u>-</u>
	-	42,574	9,246
Current account after Oct. 31, 2005 (d):			
Empresa de Eletricidade Vale Paranapanema S.A	5,667	-	-
Denerge Desenvolvimento Energético S.A.	<u>3,083</u>	<u>-</u>	<u>-</u>
	8,750	-	-
Advance			
Cia de Energia Elétrica do Estado do Tocantins - Celtins	5	5	5
Others	<u>334</u>	<u>10</u>	<u>10</u>
	339	15	15
Dividends			
Rede Eletricidade e Serviços S.A.	<u>-</u>	<u>303</u>	<u>-</u>
TOTAL	<u>215,711</u>	<u>114,604</u>	<u>70,383</u>

	Consolidated		
	2006	2005	2004
LIABILITIES			
<u>Current</u>			
Suppliers (a)			
Rede Comercializadora de Energia S.A.	-	7,710	9,021
<u>Non - Current</u>			
Loan contract (c):			
Denerge Desenvolvimento Energético S.A.	-	237,809	237,224
Current account until Aug. 31, 2004 (e):			
Denerge Desenvolvimento Energético S.A.	-	19,202	41,157
Rede Comercializadora de Energia S.A.	-	4,007	5,165
	-	23,209	46,322
Current account after Sep. 1, 2004 (e):			
Denerge Desenvolvimento Energético S.A.	-	128,739	38,626
Empresa de Eletricidade Vale Paranapanema S.A.	-	17,327	1,262
Rede Comercializadora de Energia S.A.	-	10,813	740
Empresa de Distribuição de Energia Vale Paranapanema S.A.	-	3,690	-
	-	160,569	40,628
Contract for the sale of shares (f):			
Empresa de Eletricidade Vale Paranapanema S.A.	127,676	-	-
Denerge Desenvolvimento Energético S.A.	63,512	-	-
	191,188	-	-
TOTAL	191,188	421,587	324,174

a. Contracts related to electric sector

In the normal course of business, our companies buy and sell energy among themselves in accordance with Electric Power Purchase and Sale Contracts ("CCVE") and Commercialization in the Regulated Environment Contracts ("CCEAR"). Some of our generator companies also signed Connection to the Distribution System Contracts ("CCD") and Use of the Distribution System Contracts ("CUSD") for the connection and use of our companies' distribution system.

b. Debt assumption, credit assignment and other covenants

As part of the restructuring process of Company, through a private instrument for debt assumption, credit assignment and other covenants dated March 31, 2006, the Company assumed the debts and accounts receivable, before third parties, subsidiaries and financial institutions, of the controlled companies EEVP and Denerge, as follows:

Rede Empresas de Energia Elétrica S.A. and Subsidiaries

	<u>EEVP</u>	<u>DENERGE</u>
Debt assumption - Balances on March 31, 2006		
Contract BNDES	<u>35,929</u>	<u>434,889</u>
Current account until Aug. 31, 2004		
Cia Nacional de Energia Elétrica	<u>62,933</u>	<u>-</u>
Current account after Sep. 1, 2004		
Cia Nacional de Energia Elétrica	4,221	-
Cia de Energia Elétrica do Estado do Tocantins - Celtins	3,211	-
Cia Força e Luz do Oeste	1,327	-
Centrais Elétricas Matogrossenses S.A. - Cemat	24,839	-
Rede Lajeado Energia S.A.	3,162	797
Rede Comercializadora de Energia S.A.	8,311	
Socibe Energia S.A.	92	
Rede Power do Brasil S.A.	4,792	472
Braço Norte Energia S.A.	97	101
Apiacás Energia S.A.	22	
Primavera Energia S.A.	15	
Rede Eletricidade e Serviços	-	368
	<u>50,089</u>	<u>1,738</u>
Other Contracts		
Enermat - Debt assumption Cemat	-	33,702
Empresa de Distr. de Energia Vale Paranapanema - Vertical Divestiture	<u>11,646</u>	<u>-</u>
	<u>11,646</u>	<u>33,702</u>
TOTAL DEBT ASSUMPTION	<u>160,597</u>	<u>470,329</u>

Rede Empresas de Energia Elétrica S.A. and Subsidiaries

Credit Granting - Balance on Mar. 31, 2006	EEVP	DENERGE
Loan contract		
QMRA Participações S.A.	-	69,312
Cia de Energia Elétrica do Estado do Tocantins - Celtins	-	8,688
Centrais Elétricas do Para S.A. - Celpa	-	42,391
Rede Empresas de Energia Elétrica	-	107,113
	-	227,504
Current account until Aug. 31, 2004		
Rede Empresas de Energia Elétrica		17,905
Cia de Energia Elétrica do Estado do Tocantins - CELTINS		990
		18,895
Current account after Sep. 1, 2004		
Rede Empresas de Energia Elétrica	19,799	7,116
Empresa Elétrica Bragantina S.A.	109	-
Vale Energética S.A.	-	2
Centrais Elétricas Matogrossenses S.A. - CEMAT	-	2,302
QMRA Participações S.A.	-	100,468
Centrais Elétricas do Para S.A. - CELPA	-	3,616
Ipueiras Energia S.A.	-	568
Rede Comercializadora de Energia S.A.	-	2,022
Tocantins Energia S.A.	-	5
	19,908	116,099
Other contracts		
Cia Geral	-	311
Vale Energética S.A.	-	95
Itamarati Norte S.A. - Agropecuária	-	60,868
	-	61,274
Dividends		
Rede Comercializadora de Energia S.A.	-	13,293
Rede Eletricidade e Serviços S.A.	-	1,689
	-	14,982
TOTAL CREDIT GRANTING	19,908	438,754
NET RECEIVABLE ON MAR. 31, 2006	140,689	31,575
Operation plus charges from March to December 2006	17,251	3,871
NET RECEIVABLE ON DEC. 31, 2006	157,940	35,446

The balance assessed in that contract should be settled within a maximum period of ten years, duly adjusted as per CDI, plus interest of 2% p.a., maturing on December 31, 2016. On December 29, 2006, Company assumed, through a private instrument for debt assumption and other covenants, the debt of QMRA Participações S.A. with BNDES in the amount of R\$ 101,408 to be paid in 60 monthly installments and grace period of 36 months, the 1st installment maturing on Dec. 30, 2009, as well as the debt of Ipueiras Energia S.A. with Cia de Energia Elétrica do Estado do Tocantins in the amount of R\$ 10,748, to be paid in 86 monthly installments and grace period of 24 months, the 1st installment due on Jan. 31, 2009. Both should be adjusted as per CDI plus 2% p.a.

c. Loan contracts

Refers to agreements entered into between Caiuá, Celpa, Celtins, Qmra and indirectly controlling company Denerge, under commutative conditions, in view of the debt assumption with BNDES, under the following terms:

- Period: up to 62 months.
- 1st installment matures: Nov. 15, 2005.
- Compensation: Long-Term Interest Rate (TJLP) plus 5% p.a.

This new agreement was approved by ANEEL through Official Letters No. 2,230, 2,231 and 2,232-SFF/ANEEL of December 26, 2003.

In March 2006, through a private instrument for credit assignment and debt assumption between Rede Empresas and Denerge, Rede Empresas assumed the credits of the loan contract with Celpa, Qmra, and Celtins. In December 2006, those contracts were renegotiated under the same conditions renegotiated with BNDES.

Payment Conditions:

6.3% in 40 quarterly installments, the 1st maturing on Dec. 15, 2006.

93.7% in 5 quarterly installments, the 1st maturing on Dec. 15, 2007.

Compensation: TJLP plus 2 p.a.

d. Current account Oct. 31, 2005

Refers to financial operations among the Rede Group companies with a 24-month maturity pursuant to current account loan contracts that can be extended for equal and consecutive periods.

- Intercompany Multilateral Contract between the Holding and other Companies

As required, they will take or grant loans and financial resources in a successive and continuous manner, undertaking, respectively, acting as a debtor or creditor as the case may be, with debit balance incurring 100% of interbank deposit rate (CDI) plus 2% of annual interest.

e. Current account Dec 31, 2006

Refers to the consolidation and renegotiation of balances of the contracts called "Current Account until Aug. 31, 2004" that would be paid in 120 months, with grace period of 18 months and adjusted at a rate of 100% of CDI; also refers to the contract called "Current Account after Sep. 1, 2004" that allowed financial operations among the companies of the group incurring CDI plus 2% of interest p.a., and a 24-month maturity, in addition to the balances of these contracts assumed through debt assumption and credit assignment of subsidiaries Denerge Desenvolvimento Energético S.A. and Empresa de Eletricidade Vale Paranapanema S.A. They are detailed in item "b" of this note and renegotiated in the following conditions:

- Grace period of 24 months
- Period - 86 months
- Yield of 100% of CDI plus 2% of interest p.a.

That renegotiation was approved by ANEEL through Official Letter No. 181 of the Superintendency of Financial and Economic Inspection dated Jan. 29, 2007.

f. Contract for the purchase and sale of stocks

As part of the corporate restructuring process, the Company acquired and sold ownership interests in companies through stock purchase and sale agreements, as seen below:

- Denerge Desenvolvimento Energético S.A.

Disposal:

Rede Peixe Energia S.A - 60 monthly and successive installments with grace period of three years, the 1st installment maturing on April 3, 2009, incurring 100% of CDI plus 2% p.a.

Acquisition:

Rede Comercializadora de Energia S.A and Rede Eletricidade e Serviços S.A – Down payment in 3 annual installments maturing on Jun. 30, 2006; Jun. 30, 2007 and Jun. 30, 2008 plus 84 monthly installments, the 1st maturing on Jun. 30, 2008, all incurring 100% of CDI plus 2% p.a.

- Empresa de Eletricidade Vale Paranapanema S.A.

Acquisition:

Empresa de Distribuição de Energia Vale Paranapanema S.A. Down payment in 3 annual installments maturing on Jun. 30, 2006; Jun. 30, 2007 and Jun. 30, 2008 plus 84 monthly installments, the 1st maturing on Jul. 30, 2008, all incurring 100% of CDI plus 2% p.a.

Infrastructure Sharing

Presently, Grupo Rede's companies share the following activities, equipment, and facilities

Aircraft sharing: a contract was signed on March 24, 1999, between the companies Caiuá Distribuidora, EDEVP, EEB, CNEE, CFLO, CELTINS, CEMAT and CELPA, through a private instrument for shared use of aircrafts and other covenants, according to Official Letter No. 1.995/2003-SFF/ANEEL dated November 25, 2003.

All involved expenses referring maintenance and operation are borne by in Caiuá Distribuidora, the aircraft owner, and passed on to the other companies according to segregation criterion established in the referred contract.

Brasilia Office Sharing: a contract was signed on July 22, 2004 between the companies Caiuá Distribuidora, EDEVP, EEB, CNEE, CFLO, CELTINS, CEMAT and CELPA, approved as per Official Letter No. 1.781-SFF/ANEEL dated August 7, 2006, published in the Official Gazette on August 8, 2006.

All costs related to the office are borne by EDEVP and passed on to the other companies in accordance with segregation criterion established in the referred contract.

Commercial activities – Call Center and issuance of revenue and collection reports: ANEEL approved on March 21, 2006 the apportionment of cost structure related to call center services and commercial processes, such as the printing of bills, collection control, the issuance of reading lists and commercial analysis, among the companies Caiuá Distribuidora, EEB, EDEVP, CNEE and CFLO according to Official Letter No. 600-SFF/ANEEL of March 21, 2006, published in the Official Gazette on March 22, 2006.

Cooperation agreement for shared use of accounting services infrastructure of the company EDEVP, between the companies Caiuá Distribuidora, EDEVP, EEB, CNEE, and CFLO, approved through Official Letter No. 256 SFF/ANEEL of February 05, 2007 and published in the Official Gazette on February 06, 2007.

Cooperation agreement signed on August 31, 2006, for management of personnel for reciprocal use of human resources in common management activities for a period of 24 months, between the companies Caiuá Distribuidora, EDEVP, EEB, CNEE, CELPA, CEMAT, CFLO, and Rede Comercializadora, approved according to Official Letter 2.207 SFF/ANEEL of September 26, 2006 and published in the Official Gazette on September 27, 2006.

15. INCOME AND SOCIAL CONTRIBUTION TAX AND DEFERRED TAX CREDITS

Income and social contribution tax are calculated based on tax rates in effect at the balance sheet dates. Deferred taxes relating to temporary differences and tax losses carryforward is recorded when is more likely than not to be realized.

As of January 1, 2002, the Company no longer recorded deferred tax credits on tax losses carryforward.

The composition of the calculation basis and the balances of such taxes as of December 31 are as follows:

Rede Empresas de Energia Elétrica S.A. and Subsidiaries

	Company				
	Income tax	Social contribution tax	Total		
			2006	2005	2004
Breakdown of tax expenses:					
Current taxes	-	(1,815)	(1,815)	(1,056)	-
Deferred taxes - net variations	(27,749)	(10,498)	(38,247)	4,385	3,358
	(27,749)	(12,313)	(40,062)	3,329	3,358
Reconciliation of tax expenses:					
Income before taxes	128,580	128,580			
Permanent additions (exclusions):					
Equity accounting	(296,990)	(296,990)			
Amortization of goodwill in subsidiary	2,993	-			
Effect of realization of CME- Law 8200	328	328			
Revaluation in subsidiaries	26,812	26,812			
Others	647	-			
Tax bases	(137,630)	(141,270)			
Rates	25%	9%			
Subtotal	34,408	12,714			
Reversal of tax credits from previous years	(27,749)	(12,313)			
Non-deferred tax credits	(34,408)	(12,714)			
Income (Expenses) with taxes	(27,749)	(12,313)	(40,062)	3,329	1,871
Tax basis of deferred tax credits:					
Tax loss carryforwards	795,438	819,865			
Amortization of goodwill	15,362	-			
Tax basis of deferred taxes	810,800	819,865			
Rates	25%	9%			
Subtotal	202,700	73,788			
Non-deferred tax credits	(202,700)	(73,788)			
subtotal (a)	-	-	-	47,363	47,363
<u>Tax charges on revaluation reserve</u>					
Revaluation reserve	394,199	394,199			
(-) Lands	(7,167)	(7,167)			
(-) Reversal of previous revaluation	(110,148)	(110,148)			
(-) Depreciation/write-offs	(77,099)	(77,099)			
Tax basis	199,785	199,785			
Rates	25%	9%			
Tax charges on revaluation reserve (b)	49,946	17,981	67,927	77,043	40,148
Net tax effects on income (loss) (b-a)			67,927	29,680	7,215

Rede Empresas de Energia Elétrica S.A. and Subsidiaries

	Consolidated				
	Income tax	Social contribution tax	Total		
			2006	2005	2004
<u>Composition of tax expenses:</u>					
Current taxes	(161,177)	(59,265)	(220,442)	(126,993)	(33,564)
Deferred taxes - net variation	20,430	10,225	30,655	196,403	(14,443)
	<u>(140,747)</u>	<u>(49,040)</u>	<u>(189,787)</u>	<u>69,410</u>	<u>(48,007)</u>
Reconciliation of tax expenses:					
Income before taxes	397,246	397,246			
Permanent additions (exclusions):					
Equity accounting	(188,379)	(188,379)			
Complementary monetary restatement	-	5,329			
Effect of realization of CME - Law 8200	1,857	1,857			
Amortization of goodwill in subsidiaries	2,993	-			
Others	53,864	12,421			
Tax bases:	267,581	228,474			
Rates	25%	9%			
Subtotal	(66,895)	(20,563)			
Reversal of tax credits from precious years	(28,299)	(12,313)			
Non-deferred tax credits	(45,553)	(16,164)			
Income (Expenses) with taxes	<u>(140,747)</u>	<u>(49,040)</u>	<u>(189,787)</u>	<u>69,410</u>	<u>48,007</u>
<u>Deferred tax credit basis:</u>					
Tax loss carryforwards	2,392,208	2,456,889			
Provision for labor and civil liabilities	22,258	22,258			
Allowance for doubtful accounts	69,777	69,777			
Retirement plan adjustment	15,721	15,721			
Estimated income - Irrigation and Aquaculture	(6,299)	(6,299)			
Amortization of goodwill	44,059	-			
Deferred tax basis	2,537,724	2,558,346			
Rates	25%	9%			
Subtotal	634,431	230,251			
Non-deferred tax credits	(211,352)	(74,320)			
subtotal (a)	<u>423,079</u>	<u>155,931</u>	<u>579,010</u>	<u>639,012</u>	<u>495,782</u>
<u>Tax charges on unrealized income/loss</u>					
Tax charges on revaluation reserve (b)			-	22,416	-
<u>Tax charges on revaluation reserve</u>					
Revaluation reserve	3,399,525	3,399,525			
(-) Lands	(56,444)	(56,444)			
(-) Reversal of previous revaluation	(791,961)	(791,961)			
(-) Depreciation/write-offs	(579,214)	(579,214)			
Tax basis	1,971,906	1,971,906			
Rates	25%	9%			
Tax charges on revaluation reserve (c)	<u>492,977</u>	<u>177,472</u>	<u>670,449</u>	<u>731,990</u>	<u>294,500</u>
Effect of charges on the reversal of revaluation reserve in a subsidiary (d)					
			5,754		
Net tax effects on income/losses (b+c+d-a)			<u>97,193</u>	<u>127,847</u>	

The Company and subsidiaries engaged the expert company Moore Stephens Lima Lucchesi Auditores Independentes for the annual impairment test of deferred tax credits. Such firm prepared surveys of the Company and subsidiaries future taxable income were the basis for the impairment test referring to the tax year 2005. For tax years 2004 and 2003, the impairment test was based on surveys prepared by Banco Santander do Brasil S.A. As required by CVM Deliberation 273/98 and CVM Instruction 371/02, the surveys were submitted to the appreciation of the Board of Directors and Fiscal Council of the Company and subsidiaries and duly approved. Based on the surveys conducted for the year 2005, the estimated realization of tax credits is as follows:

2007	53,529
2008	52,736
2009	81,924
2010	88,771
2011	72,064
from 2012 to 2013	148,565
from 2014 to 2015	<u>81,421</u>
	<u><u>579,010</u></u>

16. INVESTMENTS

Investments are described as follows:

	Company				Consolidated		
	2006	2005	2004		2006	2005	2004
<u>Equity in subsidiaries:</u>							
Empresa Elétrica Bragantina S.A.	118,193	122,485	99,047		-	-	-
Companhia Nacional de Energia Elétrica	104,154	107,782	81,099		-	-	-
Companhia de Energia Elétrica do Estado do Tocantins - CELTINS	284,225	258,510	176,272		-	-	-
Companhia Força e Luz do Oeste	28,964	29,701	24,289		-	-	-
Centrais Elétricas Matogrossenses S.A. - CEMAT	533,632	481,374	325,315	(a) (e)	129,262	132,255	135,248
QMRA Participações S.A.	125,686	156,317	341	(b) (e)	158,452	162,748	166,789
Centrais Elétricas do Pará S.A. - CELPA	115,387	109,026			-	-	-
Rede Lajeado Energia S.A.	236,276	161,055	147,417		-	-	-
Tangará Energia S.A.	61,404	71,818	64,360		-	-	-
Rede Peixe Energia S.A.	-	10,947	12,522	(g)	-	-	-
Quatiara Energia S.A.	-	12,173		(h)	-	-	-
Rede Power do Brasil S.A.	587	17,331			-	-	-
Caiuá Distribuição de Energia S.A.	98,451	105,123			-	-	-
Empresa de Distribuição de Energia Vale Paranapanema S.A.	124,546			(c) (g)	9,945	-	-
Rede Comercializadora de Energia S.A.	40,938			(d) (g)	40,341	-	-
Rede de Eletricidade e Serviço S.A.	19,138			(d) (g)	19,016	-	-
	<u>1,891,581</u>	<u>1,643,642</u>	<u>930,662</u>		<u>357,016</u>	<u>295,003</u>	<u>302,037</u>
<u>Equity in affiliated:</u>							
Investco S.A.	-	-	-	(f)	761,705	741,804	241,483
Cia de Eletricidade Nova Friburgo - CENF							12,817
Other investments	103	103	65,527		16,457	27,745	108,400
	<u>1,891,684</u>	<u>1,643,745</u>	<u>996,189</u>		<u>1,135,178</u>	<u>1,064,552</u>	<u>664,737</u>

- a) Centrais Elétricas Matogrossenses S.A. – Cemat. In the period ended December 31, 2006, R\$ 2,994 was amortized (R\$ 2,993 in 2005 and R\$ 2,720 in 2004). The goodwill amortization is recorded by concession period, using the non-linear method (until 2026).
- b) QMRA Participações S.A. This amount refers to the goodwill in the acquisition of the indirect subsidiary Centrais Elétricas do Pará S.A. - Celpa. In the year ended December 31, 2006, R\$ 4,296 was amortized (R\$ 4,041 in 2005 and 3,809 in 2004). The goodwill amortization is recorded by concession period, using the non-linear method (until 2028).
- c) Empresa de Distribuição de Energia Vale Paranapanema S.A. The amortization of goodwill is recorded by concession period, using the non-linear method (until 2015).

- d) Rede Comercializadora de Energia S.A. and Rede Eletricidade e Serviços S.A. The amortization of goodwill is recorded as per the straight-line method over a 10-year maximum period, since that is not a public service concession under prevailing law.
- e) Goodwill is based on these subsidiaries' future profitability. Surveys conducted by expert companies on the recovery during the concession period concluded that the goodwill amortization "curves" are adequate, meaning that for each amortization goodwill portion, there will be an appropriate balancing item in the subsidiaries' income.
- f) Investco conducts the electric power generation activity through Hydroelectric Power Plant Luis Eduardo Magalhães, comprising 5 turbines with total installed capacity of 902.5 MW.

The electric power produced by that plant is being used or sold under the "Independent Producer" condition, pursuant to the terms of the concession contract, by the concessionaires CEB Lajeado Energia S.A., EDP Lajeado Energia S.A., Paulista Lajeado Energia S.A. and the controlled company Rede Lajeado Energia S.A.

- g) Holding due to the corporate restructuring undertaken by the Company during the vertical divestiture. See note 14 item "f"
- h) Sale of ownership interest in Quatiara Energia S.A. to Enel Brasil Participações Ltda. on October 6, 2006.

The result of the adjustment from equity method to the subsidiaries is the following:

	Company			Consolidated		
	2006	2005	2004	2006	2005	2004
<u>Subsidiary:</u>						
Empresa Elétrica Bragantina S.A.	(4,292)	1,768	2,173			
Companhia Nacional de Energia Elétrica	960	7,796	3,747			
Companhia Força e Luz do Oeste	1,387	3,819	3,881			
CELTINS	28,722	9,022	9,222	7,893 (a)		
Centrais Elétricas Matogrossenses S.A. - CEMAT	55,250	45,758	7,815	24,175 (a)		
QMRA Participações S.A.	(30,631)	29,407	(99,555)			
Centrais Elétricas do Pará S.A. - CELPA	6,963	5,660	-			
Rede Lajeado Energia S.A.	85,312	15,582	3,861	152,062 (b)		
Tangará Energia S.A.	(7,429)	7,458	5,742			
Rede Peixe Energia S.A.	(147)	(1,574)	(889)			
Quatiara Energia S.A.	20	30	-			
Rede Power do Brasil S.A.	151,866	16,168	-			
Caiuá Distribuição de Energia S.A.	(6,650)	(6,166)	-			
S.A.	6,050	-	-			
Rede Comercializadora de Energia S.A.	9,559	-	-			
Rede de Eletricidade e Serviço S.A.	49	-	-		2,111	
Rosal Energia S.A.	-	-	(6,282)			
Investco S.A.	-	-	-	-	-	704
Others				4,248	7,674	(60)
Subtotal	296,989	134,728	(70,285)	188,378	9,785	644
Goodwill amortization	(2,993)	(2,993)	(2,721)	(14,397)	(11,607)	(11,103)
Total	293,996	131,735	(73,006)	173,981	(1,822)	(10,459)

- (a) Income obtained from the sale of the generating units belonging to those subsidiaries to Tocantins Energia S/A and Rede Power do Brasil S/A in 1995. That was realized in October 2006, through disposal of the respective generating units to ENEL Brasil Participações Ltda.
- (b) Amount represented by the net gain of the Company and its subsidiaries Rede Power do Brasil S/A and Tocantins Energia S/A of R\$ 74,464, R\$ 44,834 and R\$ 32.764, respectively, with the sale of 10,000 beneficiary parties for R\$ 266,798 to Centrais Elétricas Brasileiras – ELETROBRÁS, in accordance with Extraordinary Meeting held on February 15, 2006. Amounts directly recognized in shareholder's equity.

The result of the adjustment of equity in subsidiaries is as follows:

	E.E.B.			C.N.E.E.			C.F.L.O.		
	2006	2005	2004	2006	2005	2004	2006	2005	2004
Number of capital stock shares	1,172,355	1,172,355	1,172,355	2,365,176	2,365,176	2,365,176	346,455,428	346,455,428	346,455,428
Number of shares owned	1,072,117	1,072,117	1,072,117	2,334,173	2,334,173	2,334,173	338,492,582	338,492,582	338,492,582
Percentage of direct interests held	91,45%	91,45%	91,45%	98,69%	98,69%	98,69%	97,70%	97,70%	97,70%
	R\$	R\$	R\$	R\$	R\$	R\$	R\$	R\$	R\$
Capital stock value	40,948	40,948	40,948	28,000	28,000	25,590	11,500	11,500	8,201
Adjusted shareholders' equity value	129,243	133,936	108,307	105,537	109,212	82,176	29,646	30,400	24,861
Income/loss for the year	(4,693)	4,411	3,025	934	11,714	4,306	1,421	4,410	4,472
Investment value	118,193	122,485	99,047	104,154	107,782	81,099	28,964	29,701	24,289
Equity accounting result	(4,292)	1,768	2,173	960	7,796	3,747	1,387	3,819	3,881

	CELTINS			CEMAT			QMRA		
	2006	2005	2004	2006	2005	2004	2006	2005	2004
Number of capital stock shares	378,733,957	378,733,957	378,733,957	105,534,853	105,534,853	105,534,853	225,265,000	225,265,000	225,265,000
Number of shares owned	192,631,908	192,631,908	192,631,908	39,622,185	39,622,185	39,622,185	146,422,247	146,422,247	146,422,247
Percentage of direct interests held	50,86%	50,86%	50,86%	37,54%	37,54%	37,54%	65,00%	65,00%	65,00%
	R\$	R\$	R\$	R\$	R\$	R\$	R\$	R\$	R\$
Capital stock value	189,367	189,367	189,367	589,891	589,891	589,891	225,265	225,265	225,265
Adjusted shareholders' equity value	558,839	523,796	346,584	884,887	802,108	314,022	193,362	240,487	524
Income/loss for the year	40,340	44,295	20,134	82,779	186,801	20,846	(47,125)	45,242	(153,162)
Realized (non-realized) income/loss	7,893	(7,893)	-	24,175	(24,175)	-	-	-	-
Investment value	284,225	258,510	176,272	332,187	276,936	117,884	125,686	156,317	341
Advance for capital increase	-	-	-	72,183	72,183	72,183	-	-	-
Goodwill to amortize	-	-	-	129,262	132,255	135,248	-	-	-
Total investment	284,225	258,510	176,272	533,632	481,374	325,315	125,686	156,317	341
Equity accounting result	28,722	9,022	9,222	55,250	45,758	7,815	(30,631)	29,407	(99,555)

	CELPA			Rede lajeado			Tangará		
	2006	2005	2004	2006	2005	2004	2006	2005	2004
Number of capital stock shares	63,850,937,020	63,850,937,020	-	132,793,454	79,583,117	50,989,000	78,271,000	78,271,000	78,271,000
Number of shares owned	6,452,992,384	6,452,992,384	-	39,350,358	39,350,358	23,607,907	48,270,992	48,270,992	48,270,992
Percentage of direct interests held	10,11%	10,11%	0,00%	29,63%	49,45%	46,30%	67,32%	61,67%	61,67%
	R\$	R\$	R\$	R\$	R\$	R\$	R\$	R\$	R\$
Capital stock value	518,932	518,932	-	513,810	296,622	184,578	78,271	78,271	78,271
Adjusted shareholders' equity value	1,281,227	1,222,976	-	797,421	575,933	185,164	89,397	114,470	102,377
Income/loss for the year	64,359	98,372	-	35,970	32,415	18,725	(1,167)	12,093	9,311
Investment value	129,532	123,171	-	236,276	161,055	85,731	60,180	70,594	63,136
Advance for capital increase	-	-	-	-	-	61,686	1,224	1,224	1,224
Negative goodwill	(14,145)	(14,145)	-	-	-	-	-	-	-
Total investment	115,387	109,026	-	236,276	161,055	147,417	61,404	71,818	64,360
Equity accounting result	6,963	5,660	-	85,312	15,582	3,861	(7,429)	7,458	5,742

Rede Empresas de Energia Elétrica S.A. and Subsidiaries

	Rede Peixe			Quatiara			Rede Power		
	2006	2005	2004	2006	2005	2004	2006	2005	2004
Number of capital stock shares		1,000	1,000		12,148,111	-	10,000	10,000	-
Numbers of shares owned		997	997		12,148,507	-	9,980	9,980	-
Percentage of direct interests held		99.70%	99.70%		100.00%	0.00%	99.80%	99.80%	0.00%
	R\$	R\$	R\$	R\$	R\$	R\$	R\$	R\$	R\$
Capital stock value		1	1		12,148	-	1,860	1,860	-
Adjusted shareholders' equity		978	2,557		12,150	-	566	17,367	-
Income/loss for the year		(1,579)	(1,052)		30	-	152,170	18,216	-
Investment value		975	2,549		12,150	-	565	17,331	-
Advance for capital increase		9,972	9,973		23	-	22	-	-
Total investment		10,947	12,522		12,173	-	587	17,331	-
Equity accounting result		(147)	(1,574)		20	30	151,866	16,168	-

	Caiuá Distribuição			EDEVP	Rede Com	Rede Serv
	2006	2005	2004	2006	2006	2006
Number of capital stock shares	98,825,770	98,825,770	-	115,905,275	1,000	1,000
Numbers of shares owned	98,825,766	98,825,766	-	115,905,271	996	995
Percentage of direct interests held	100.00%	100.00%	0.00%	100.00%	99.60%	99.50%
	R\$	R\$	R\$	R\$	R\$	R\$
Capital stock value	111,267	98,826	-	115,905	500	100
Adjusted shareholders' equity	98,451	92,660	-	114,578	600	122
Income/loss for the year	(6,650)	(6,166)	-	2,888	14,742	282
Investment value	98,451	92,660	-	114,578	597	122
Goodwill to amortize	-	-	-	9,945	40,341	19,016
Advance for capital increase	-	12,463	-	23	-	-
Total investment	98,451	105,123	-	124,546	40,938	19,138
Equity accounting result	(6,650)	(6,166)	-	6,050	9,559	49

17. PROPERTY, PLANT AND EQUIPMENT

	Consolidated		
	2006	2005	2004
In service	4,812,329	4,547,331	3,159,377
In progress	882,183	720,195	452,634
	<u>5,694,512</u>	<u>5,267,526</u>	<u>3,612,011</u>
Special obligations from electric energy public service concession	<u>(1,174,555)</u>	<u>(870,521)</u>	<u>(777,873)</u>
	<u>4,519,957</u>	<u>4,397,005</u>	<u>2,834,138</u>

Rede Empresas de Energia Elétrica S.A. and Subsidiaries

	Average annual					
	depreciation rates (*) %	Cost	Accumulated depreciation	2006	2005	2004
Generation:						
Cost	3.78	313,613	(72,624)	240,989	431,636	477,891
Special monetary restatement	0.24	534	(465)	69	15,196	16,591
Revaluation	45.11	46,407	(4,119)	42,288	105,970	(4,462)
Transmission:						
Cost	3.74	8,556	(2,113)	6,443	6,764	9,210
Special monetary restatement	3.58	(22)	12	(10)	(12)	(12)
Revaluation	4.49	8,994	(633)	8,361	8,764	905
Distribution:						
Cost	3.48	3,563,937	(1,218,773)	2,345,164	1,797,677	1,682,732
Special monetary restatement	2.9	75,986	(61,457)	14,529	12,830	15,089
Revaluation	5.74	2,248,486	(213,972)	2,034,514	2,038,086	829,660
Commercialization:						
Cost	6.96	21,235	(10,923)	10,312	10,322	10,301
Special monetary restatement	0.62	555	(519)	36	23	39
Revaluation	2.69	21,209	(1,164)	20,045	18,992	14,022
Management:						
Cost	6.65	90,232	(52,099)	38,133	42,359	56,148
Special monetary restatement	0.41	2,544	(2,367)	177	145	144
Revaluation	5.01	57,286	(6,007)	51,279	58,580	51,119
		<u>6,459,552</u>	<u>(1,647,223)</u>	<u>4,812,329</u>	<u>4,547,332</u>	<u>3,159,377</u>
Constructions in progress:						
Generation		49,448	-	49,448	49,434	40,482
Distribution		817,976	-	817,976	663,242	403,559
Commercialization		2,263	-	2,263	277	1,488
Management		12,496	-	12,496	7,241	7,105
		<u>882,183</u>	<u>-</u>	<u>882,183</u>	<u>720,194</u>	<u>452,634</u>
		<u>7,341,735</u>	<u>(1,647,223)</u>	<u>5,694,512</u>	<u>5,267,526</u>	<u>3,612,011</u>

(*) The average rate is calculated taking into account depreciation expenses in the year divided by property, plant, and equipment annual average balance.

The main annual depreciation rates by macro activity, according to the ANEEL Resolution No.44/99, are as follows:

Annual depreciation rates:

<u>Generation</u>	<u>(%)</u>	<u>Commercialization</u>	<u>(%)</u>
General equipment	10.0	General equipment	10.0
Reservoirs, dams and water mains	2.0	Buildings	<u>4.0</u>
Hydraulic turbine	<u>2.5</u>		
<u>Distribution</u>		<u>Central management</u>	
Capacitor bar	6.7	Vehicles	20.0
Distribution switch	6.7	General equipment	<u>10.0</u>
System conductor	5.0		
System structure	5.0		
Voltage regulator	4.8		
Distribution transformer	<u>5.0</u>		

On concession-linked assets

According to articles 63 and 64 of Decree 41,019, of February 26, 1957, assets and facilities used in generation, transmission, distribution, and commercialization are linked to these activities, and accordingly, cannot be removed, disposed of, assigned or hypothecated without the Regulating Agency's prior and express authorization. ANEEL Resolution No. 20/99 regulates the disentailing of assets from electric power public service concessions, granting prior authorization for the disentailing of unserviceable assets when intended for disposal and requiring that the revenue from such disposal be deposited in a blocked bank account for subsequent investment in the concession itself.

Financial charges and inflation effects

As required by ANEEL Resolution No. 001 of December 24, 1997 and CVM Deliberation No. 193 of July 11, 1996, interest and other financial charges for the period between January and October 2005 related to funds raised from third parties for investment in construction work in progress are recorded as asset costs, as follows:

					Total	
	Generation	Distribution	Commercialization	Non linked activities	2006	2005
Financial charges appropriated to income	(2,363)	(46,906)	(63,266)	(247,915)	(360,450)	(249,231)
(-) Reclassification as construction work in progress	5	28,409	-	-	28,414	7,511
Net	<u>(2,358)</u>	<u>(18,497)</u>	<u>(63,266)</u>	<u>(247,915)</u>	<u>(332,036)</u>	<u>(241,720)</u>
Income from financial investments	-	44,707	709	12,312	57,728	20,717
(-) Reclassification as construction work in progress	-	(4,668)	-	-	(4,668)	-
Net	<u>-</u>	<u>40,039</u>	<u>709</u>	<u>12,312</u>	<u>53,060</u>	<u>20,717</u>
Net monetary restatements	1,165	13,033	17,552	(24,397)	7,353	(50,279)
(-) Reclassification as construction work in progress	-	(6,532)	-	-	(6,532)	-
Net	<u>1,165</u>	<u>6,501</u>	<u>17,552</u>	<u>(24,397)</u>	<u>821</u>	<u>(50,279)</u>

Obligations Linked to the Public Electric Power Service Concession

Refers to linked obligations to the public electric power service concession, representing amounts pertaining to the federal government, states, municipalities and consumers, as well as donations not conditioned to return in favor of the donor, and subventions intended for investments in the public electric power service, and in distribution activities, that will be waived at the end of the concession. Such obligations are recorded in a specific group of long-term liabilities and are presented as a deduction from Property, Plant and Equipment, due to their characteristics of addition of funds for the specific purpose of financing certain works.

ANEEL Regulatory Resolution No. 234 of October 31, 2006 established the general concepts, methodologies and initial procedures for performance of the second periodic tariff adjustment cycle that will occur in August 2007 at the Company. It changes the treatment of special obligations, which will start to be amortized at the average depreciation rate of assets.

As from January 1, 1996, the effects of inflation have no longer been recognized on these obligations. Below is the composition as of December 31:

	2006	2005	2004
Federal government's participation	108,012	70,623	69,794
State governments' participation	162,967	156,539	161,223
Municipalities' participation	89,497	85,051	84,228
Consumers' participation	406,547	380,356	368,384
Donations and subventions intended for investment in service under concession	406,948	177,080	93,663
Others	584	872	581
	<u>1,174,555</u>	<u>870,521</u>	<u>777,873</u>

Revaluation

In compliance with CVM Deliberation 183/95 - item 15, the Company and its subsidiaries performed a new evaluation of the assets revalued in 2001 in continuity with the accounting practice established for property, plant, and equipment.

The revaluation covered the hydroelectric and thermo power plants, transmission lines and networks, distribution lines and networks, substations and general equipment.

The Special Shareholders' Meeting held on July 29, 2005 approved the hiring of the specialized companies Moore Stephens Lima Lucchesi Auditores Independentes and Stima Engenharia Ltda. and the appraisal report presented by each company showing the new values of the assets as of May 31, 2005.

We detail below the amounts of additions to property, plant and equipment and consolidated shareholders' equity:

	<u>Appraisal report</u>	<u>Residual value</u>	<u>Increment</u>
Generation	11,851	4,011	7,840
Distribution	274,534	162,182	112,352
Commercialization	4,691	3,665	1,026
Management	5,955	2,637	3,318
Transmission	335	69	266
Total increment to property, plant and equipment	<u>297,366</u>	<u>172,564</u>	<u>124,802</u>
Deferred taxes			(41,280)
Previous revaluations			390,719
Equity accounting on new revaluation			423,257
Realization of the revaluation reserve, net of deferred taxes (depreciation and write-offs)			<u>(209,643)</u>
Revaluation reserve recognized in shareholders' equity on Dec. 31, 2006			<u>687,855</u>

The effect of depreciation, write offs and disposals on the income for the year ended December 31, 2006, amounted to R\$ 63,019 (company) and R\$ 113,475 (consolidated).

Universalization

ANEEL, through Resolution No. 223, of April 29, 2003, amended by Resolution No. 52, of March 25, 2004, established general conditions for the preparation of Electric Power Universalization Plans intended to serve new consuming units or charge increases, regulating articles 14 and 15 of Law No. 10,438, of April 26, 2002, and fixed the liabilities of public service and electric power distribution concessionaires and permission holders.

Access Universalization National Programs and Electric Power Use "Luz Para Todos"

Presidential Decree No. 4,873, of November 11, 2003, created the Program LUZ PARA TODOS to provide electric power service to rural areas of Brazil without access to that public service until 2008.

According to article 2 of this Decree, the Program is funded through the Energy Development Account (Conta de Desenvolvimento Energético - CDE), created as an economic subsidy by Law No. 10,438, of April 26, 2002. The account is funded through Global Reversion Reserve (Reserva Global de Reversão - RGR), created by Law No. 5,655, of May 20, 1971, which itself is funded by electric sector agents, States, Municipalities and others participating in the Program. The Ministry of Mining and Energy - MME coordinates the program and it is operated with the participation of Centrais Elétricas Brasileiras S.A. - ELETROBRÁS and companies of the ELETROBRÁS system.

Subsidiaries entered into financing and granting of subsidies agreements with Eletrobras in under *Programa Luz Para Todos* for the service of 201,327 consumers. The composition of the financial resources is distributed as follows:

Funds from the Global Reversal Reserve - RGR	234,950
Funds from the Power Development Account - CDE	770,721
Funds from the Execution Agents	198,854
Funds from the States	123,764
Total of the program	<u>1,328,289</u>

18. INTANGIBLE ASSETS

	2006	2005	2004
In service	18,251	16,062	17,605
In progress	10,443	7,991	6,315
	<u>28,694</u>	<u>24,053</u>	<u>23,920</u>

Rede Empresas de Energia Elétrica S.A. and Subsidiaries

	Cost	Accumulated depreciation	2006	2005	2004
INTANGIBLE ASSETS IN SERVICE:					
Generation:					
Easement	57	-	57	-	-
Software	134	-	134	-	-
Distribution:					
Easement	10,938	(45)	10,893	10,064	9,923
Software	8,719	(4,045)	4,674	3,235	3,791
Telephone Line Usage Right	-	-	-	4	4
Commercialization:					
Easement	191	(69)	122	-	18
Software	5,912	(4,632)	1,28	179	3,744
Telephone Line Usage Right	-	-	-	86	32
Management					
Easement	18	-	18	2	-
Software	5,612	(4,539)	1,073	2,46	86
Telephone Line Usage Right	-	-	-	32	7
Subtotal	31,581	(13,33)	18,251	16,062	17,605
INTANGIBLE ASSETS IN PROGRESS					
Generation					
Software	22	-	22	-	-
Distribution					
Easement	2,162	-	2,162	1,068	1,068
Software	551	-	551	1,965	1,453
Commercialization					
Software	5,554	-	5,554	352	357
Management					
Software	2,154	-	2,154	4,606	3,437
	10,443	-	10,443	7,991	6,315
	42,024	(13,33)	28,694	24,053	23,920

The easement strips are passage rights for distribution and transmission lines in the Company's area of concession, and in urban areas and rural properties, set up as indemnity in favor of the estate owner. As they are permanent, there is no amortization.

Licenses for usage of intellectual property are comprised of expenses incurred with acquisition of licenses and other expenses on services complementary to the productive use of software.

19. SUPPLIERS

	Company			Consolidated		
	2006	2005	2004	2006	2005	2004
Current						
Electricity supply:						
Arapucel Indaiavá	-	-	-	323	2,157	1,985
Arapucel Ombreiras S.A.	-	-	-	129	1,974	2,080
Araputanga	-	-	-	483	2,257	527
Cemig	-	-	-	3,690	173	835
Cia de Geração de Energ Elétrica Tiete	-	-	-	16,902	19,058	859
CHESF	-	-	-	12,807	8,272	771
Companhia Energética de São Paulo - Cesp	-	-	-	10,696	4,684	9,021
Copel Distribuição S.A.	-	-	-	2,260	2,090	129
Copel Geração S.A.	-	-	-	5,359	3,446	3,573
Duke Energy	-	-	3,573	962	2,623	6,368
Eletram	-	-	-	932	916	8,760
Eletrobrás	-	-	-	13,724	8,511	42,216
Eletronorte	-	-	3,795	4,649	16,129	20,142
Rede Lajeado Energia S.A	-	-	-	-	-	-
Furnas	-	-	-	23,769	16,994	9,927
Global Energia Elétrica	-	-	-	926	930	1,843
Guarantã Energética	-	-	-	958	578	1,293
Itamarati Norte	-	-	-	6,264	4,039	-
Rede Comercializadora Energia S.A.	-	-	1,557	505	7,710	-
Rosal Energia S.A.	-	-	571	2,728	2,375	-
Apiacas Energia S.A.	-	-	-	2,811	-	-
Enerpeixe Energia S.A.	-	-	-	1,650	-	-
Rio do Sangue Energia S.A.	-	-	-	1,735	-	-
Socibe Energia S.A.	-	-	-	2,473	-	-
Isamu Ikeda Energia S.A.	-	-	-	3,361	-	-
Primavera Energia S.A.	-	-	-	1,533	-	-
Others	-	-	-	12,788	4,186	1,009
Installments:						
Eletronorte (a)	-	-	-	27,068	46,459	91,614
Eletrobrás	-	-	-	834	2,967	3,102
Furnas (b)	-	-	-	62,938	53,934	117,048
	-	-	9,496	225,257	212,462	323,102

Rede Empresas de Energia Elétrica S.A. and Subsidiaries

	2006	2005	2004	2006	2005	2004
CURRENT:						
Electric power purchase						
Free energy - CCEE (c)	-	-	1,159	16,951	54,943	48,362
Current energy - CCEE	-	-	29	5,354	1,022	1,129
	-	-	1,188	22,305	55,965	49,491
Fuel purchase						
Petrobras	-	-	-	20,004	93,156	-
Charges on electric network use						
CTEEP	-	-	793	4,684	3,207	3,396
Furnas	-	-	249	3,422	3,430	4,043
Chesf	-	-	164	1,751	1,550	2,103
Eletronorte	-	-	124	4,851	5,019	6,256
Eletrosul	-	-	97	1,017	980	1,245
Expansion	-	-	31	292	292	398
TSN	-	-	53	507	524	679
Novatrans	-	-	55	531	577	703
ETEO	-	-	20	187	189	255
Cemig	-	-	62	1,215	1,030	799
Copel Transmissão S.A.	-	-	33	280	260	379
EATE	-	-	48	436	463	613
ONS	-	-	99	583	686	1,313
CEEE	-	-	45	471	467	572
Investco	-	-	-	-	-	14
Rede Lajeado Energia S.A.	-	-	140	-	-	-
Others	-	-	67	2,566	1,842	1,453
	-	-	2,080	22,793	20,516	24,221
Materials and services	411	13	16,841	87,250	96,265	129,393
Contractual retention	-	-	-	2,934	1,748	410
	411	13	29,605	380,543	480,112	526,617
Long-term						
Electric power purchase						
Tietê	-	-	-	25	331	637
Free energy - CCEE (c)	-	-	9,769	35,469	11,989	29,314
(-) Provision for losses				(21,488)		
Installments						
Eletronorte (a)	-	-	-	-	19,831	24,984
Eletrobrás	-	-	-	-	676	3,877
Furnas (b)	-	-	-	48,502	85,756	72,430
	-	-	9,769	62,508	118,583	131,242

- (a) Refers debts referring to electricity bills renegotiated in 24 monthly and successive installments, the 1st due on July 30, 2005 and the last on June 30, 2007, indexed to the IGP-M plus interest of 12% p.a.

(b) Electric power supply installment plan; contract signed on August 15, 2002, the amortization occurs by means of electric power payment in kind, with an amortization period of at least 53 installments. This could be extended independently of the parts' approval, as provided in the fifth clause of the contract; the interest rate is 12.68% per annum plus IGP-M variation.

(c) See note 37

20. TAXES AND SOCIAL CHARGES PAYABLE

Company	Current			Non-current		
	2006	2005	2004	2006	2005	2004
State VAT - ICMS	-	-	16,479	-	-	3,491
Social Integration Program - PIS (c)	154	1,426	643	-	350	282
Contribution for Social Security Funding - Cofins (c)	711	11,710	3,097	-	7,514	5,920
Withholding income tax	1,122	-	-	-	-	-
Financial Transactions Tax - IOF (c)	449	-	597	-	7,069	5,457
Others	37	55	476	-	-	-
	<u>2,473</u>	<u>13,191</u>	<u>21,292</u>	<u>-</u>	<u>14,933</u>	<u>15,150</u>
Tax installment:						
Refis			614			
Paes (b)	83	2,817	2,411	444	32,026	29,836
Paex (f)	64	-	-	38,898	-	-
ICMS	-	-	18,879	-	-	33,051
	<u>147</u>	<u>2,817</u>	<u>21,904</u>	<u>39,342</u>	<u>32,026</u>	<u>62,887</u>
Federal taxes on vertical divestiture (e)	<u>(40)</u>	<u>(11,879)</u>	<u>-</u>	<u>(22,195)</u>	<u>(7,864)</u>	<u>-</u>
	<u>2,580</u>	<u>4,129</u>	<u>43,196</u>	<u>17,147</u>	<u>39,095</u>	<u>78,037</u>

Rede Empresas de Energia Elétrica S.A. and Subsidiaries

	Current			Non-current		
	2006	2005	2004	2006	2005	2004
Consolidated						
State VAT - ICMS	100,471	109,595	110,644	10,186	8,525	6,859
Income tax (c)	27,005	53,496	4,108		100,020	89,710
Social contribution tax (c)	7,397	15,772	1,216		37,469	32,963
Social security (c)	6,838	6,010	6,039		-	-
Severance Pay Fund - FGTS	1,536	1,568	1,648	169	165	294
Social Integration Program - PIS (c)	5,726	40,042	18,334		65,030	57,014
Contribution for Social Security Funding - Cofins (c)	26,321	170,454	62,007		274,747	234,190
Withholding income tax	18,079	5,168	2,881		2,869	1,430
Financial Transactions Tax - IOF (c)	865	3,964	4,683		20,767	17,759
CPMF	-	4,891	3,255		6,605	5,863
Others	4,810	2,484	1,698		-	-
	<u>199,048</u>	<u>413,444</u>	<u>216,513</u>	<u>10,355</u>	<u>516,197</u>	<u>446,082</u>
Tax installment:						
Fiscal Recovery Program - Refis (a)	-	20,655	35,676	-	-	19,851
Tax debt refinancing program - Paes (b)	235	32,801	28,823	1,066	235,591	240,700
ICMS (d)	5,941	59,834	79,203	15,493	103,249	77,763
Extraordinary tax debt refinancing program - Paex (f)	90,184	-	-	1,044,678	-	-
Others	160	-	-	639	-	-
	<u>96,520</u>	<u>113,290</u>	<u>143,702</u>	<u>1,061,876</u>	<u>338,840</u>	<u>338,314</u>
Federal taxes on vertical divestiture (e)	<u>(40)</u>	<u>(11,879)</u>	<u>-</u>	<u>(22,195)</u>	<u>(7,864)</u>	<u>-</u>
	<u>295,528</u>	<u>514,855</u>	<u>360,215</u>	<u>1,050,036</u>	<u>847,173</u>	<u>784,396</u>

- (a) Refers to the consolidation of tax debts regarding the Fiscal Recovery Program – REFIS, as set forth in Note 39, which is subject to a monthly interest corresponding to the variation of the Long-Term Interest Rate – TJLP.
- (b) Refers to the consolidation of tax debts regarding the Special Debt Payment Program – PAES, as set forth in Note 39, which is subject to monthly interest corresponding to the variation of Long-Term Interest Rate – TJLP. On September 11, 2006, the Company formalized its exclusion from the Special Tax Debt Installment Payment Program – PAES, in the terms of article 1 of Provisional Measure No. 303 dated June 29, 2006. The installment plan referring to contributions to the National Social Security Institute (INSS) remains.

- (c) Non-current amounts refer to taxes and contributions offset in the years 2003 and 2004. The Company's legal counselors formalized an waiver of the administrative and legal proceedings linked to offsetting for consolidation of the respective debts in the installment plans addressed in article 1 and 8 of Provisional Measure No. 303/2006.
- (d) Installment payment plans granted to the subsidiaries Empresa Elétrica Bragantina S.A. and Companhia Força e Luz do Oeste, by the State Finance Department of Minas Gerais and Paraná, respectively. Those plans are composed of 36 and 60 monthly and successive installments, with the last one maturing in March 2009. The interest rates applicable to the contracts are the Long-Term Interest Rate (TJLP) and Selic - Central Bank overnight rate.
- (e) Taxes transferred to Caiuá - Distribuição de Energia S.A. are jointly liable, in accordance with the corporate restructuring process (see Note No 2).
- (f) Extraordinary Tax Debt Installment Payment Program – PAEX. (see note 40).)

21. LOANS AND FINANCING

a. Composition:

	Company								
	2006			2005			2004		
	Principal			Principal			Principal		
	Charges	Current	Non-current	Charges	Current	Non-current	Charges	Current	Non-current
Local currency:									
BNDES	2,193	69,375	421,872	829	31,883	46,646	466	32,058	77,914
Enernat	5,114	2,148	21,785	-	-	-	-	-	-
Eletrobrás	-	-	-	-	-	-	7	184	634
Working capital	8,778	87,973	101,490	23	11,217	65,544	514	45,190	94,537
	16,085	159,496	545,147	852	43,100	112,190	987	77,432	173,085
	Consolidated								
	2006			2005			2004		
	Principal			Principal			Principal		
	Charges	Current	Non-current	Charges	Current	Non-current	Charges	Current	Non-current
Local currency:									
BNDES	2,443	96,213	448,710	7,145	155,931	177,763	3,450	170,523	322,222
Eletrobrás	1,428	33,725	279,498	768	21,442	219,237	1,050	23,162	162,353
Enernat	5,114	2,148	21,785	-	-	-	-	-	-
Finame	6	748	561	9	810	1,282	17	3,743	75
FDE	37	2,261	7,868	-	1,431	9,153	-	1,220	8,812
FIDC	1,216	22,938	87,162	-	-	-	-	-	-
Working capital	42,648	421,187	390,498	6,631	384,711	240,454	4,503	203,821	180,216
	52,892	579,220	1,236,082	14,553	564,325	647,889	9,020	402,469	673,678
Subtotal									
Foreign currency:									
Notes Units	7,900	-	213,800	-	-	-	-	-	-
BID	4,704	-	383,771	-	-	-	-	-	-
Working capital	-	-	-	-	50,000	-	-	-	-
National Treasury	2,110	11,153	133,116	2,213	19,145	157,947	2,279	24,267	201,677
	14,714	11,153	730,687	2,213	69,145	157,947	2,279	24,267	201,677
Subtotal									
Total loans	67,606	590,373	1,966,769	16,766	633,470	805,836	11,299	426,736	875,355

b. The long term portion (principal and charges) matures as follows:

Company

Local currency

		2006	2005	2004
Since	2006			67,706
	2007		95,868	89,335
	2008	329,790	5,313	5,162
	2009	32,974	6,268	6,083
	2010	40,913	4,741	4,609
	2011	24,604		33
	2012	24,604		33
	2013	24,603		33
	2014	24,603		33
	2015	24,603		33
	2016	18,453		25
After	2017			
		<u>545,147</u>	<u>112,190</u>	<u>173,085</u>

Local Currency

		Local currency	Foreign currency	2006	2005	2004
Since	2006					281,954
	2007				368,796	223,351
	2008	604,436	11,153	615,589	116,073	97,071
	2009	171,759	47,654	219,413	53,363	43,830
	2010	123,698	157,771	281,469	49,693	40,077
	2011	82,950	161,119	244,069	43,541	34,280
	2012	77,466	141,177	218,643	40,161	30,560
	2013	56,454	50,224	106,678	21,840	14,772
	2014	42,887	52,539	95,426	12,971	5,178
	2015	39,083	27,005	66,088	5,593	1,095
	2016	29,464		29,464	3,689	855
	2017	6,177		6,177		102,332
After	2017	1,708	82,045	83,753	90,116	
Total		<u>1,236,082</u>	<u>730,687</u>	<u>1,966,769</u>	<u>805,836</u>	<u>875,355</u>

Breakdown of debt balance by currency/indexing unit:

Currency/Index	2006		2005		2004	
Company	R\$	%	R\$	%	R\$	%
Local Currency:						
URTJLP (long-term interest rate reference unit)						
Fixed rate	493,440	68.46	79,358	50.82	102,942	46.23
IGP-M (general market price index)	757	0.11				
Selic (Central Bank overnight rate)	29,047	4.03	-	-	-	-
CDI (interbank deposit rate)	197,484	27.40	76,784	49.18	119,746	53.77
Total	720,728	100.00	156,142	100.00	222,688	100.00

Consolidated	2006		2005		2004	
	R\$	%	R\$	%	R\$	%
Foreign currency:						
US dollar	756,554	100.00	224,436	97.88	216,155	94.71
Euro			4,869	2.12	12,068	5.29
Subtotal	756,554	100.00	229,305	100.00	228,223	100.00
Local currency:						
URTJLP (long-term interest rate reference unit)	548,681	29.37	223,624	18.23	280,993	25.89
Ufir Tax reference unit	215,468	11.53	195,668	15.95	175,940	16.21
CDI (interbank deposit rate)	962,621	51.53	524,390	42.75	271,496	25.02
IGP-M (general market price index)	29,228	1.57	377	0.03	536	0
TJLP (long-term interest rate)	10,166	0.54	89,942	7.33	115,670	10.66
Finel (Eletrobrás Financing Fund)	6,403	0.34	7,876	0.64	10,087	1
Selic (Central Bank overnight rate)			125,158	10.20	225,651	20.79
Fixed rate	95,627	5.12	59,732	4.87	-	0
Others					4,794	0.43
Subtotal	1,868,194	100.00	1,226,767	100.00	1,085,167	100.00
Total	2,624,748		1,456,072		1,313,390	

- c. The indexing units, basis for the adjustment of loans, financing and debentures, had the following variations in the year:

Currency/index	Variation (%)		
	2006	2005	2004
US dollar	(8.66)	(12.27)	(8.13)
Euro	1.85	(23.08)	(0.85)
URTJLP (long-term interest rate reference unit)	1.54	3.58	3.66
CDI (interbank deposit rate)	15.04	19.00	16.17
TJLP (long-term interest rate)	7.86	-	10.27
Finel (Eletrobrás Financing Fund)	0.57	0.16	2.48
Selic (Central Bank overnight rate)	15.08	19.05	16.25
IGP-M (general market price index)	3.85	1.20	12.41

- d. Details of Loans and Financing:

Company

Local currency

1. BNDES - Contracts for investments in generation, transmission, distribution, and commercialization of electricity, with interest rate of 4% per year above TJLP, with final maturity in August 2010.
2. Working capital - sundry - Interest rates ranging from CDI plus 0.30% p.a to CDI plus 8.73% p.a. The date of the last payment will be in September 2008.
3. Assumption of the debt of the indirect subsidiary Centrais Elétricas Matogrossenses S.A. - CEMAT with Enermat Investimentos e Participações S.A., as per the Debt Assumption instrument dated August 12, 2004, arising from the sale of the indirect subsidiary Itamarati Norte S.A. – Agropecuária, with amortization in 6 annual installments, and final maturity in July 2010, incurring IGPM plus 6% per annum.
4. Renegotiation of a contract with term extension:
 - a. Addendum, on Nov. 28, 2006, to the contract with Banco Santander Banespa SA., extending the R\$ 13,947 debt for amortization of the principal amount and charges in a single installment on May 21, 2008.
 - b. Addendum, on Dec. 11, 2006, to the contract with Banco Fibra SA., extending the R\$ 35,261 debt (principal R\$ 30,000 and charges R\$ 5,261), for amortization of the principal and charges in 6 installments, the first maturing on Dec. 11, 2007 and the last on May 8, 2008, incurring CDI plus 2.18% p.a.

- c. Debt confession rescheduling and consolidation agreement with BNDES (See item 5 - b).

Consolidated

Local currency

5. BNDES - Represented by contracts related to the following purposes:

- a. Loans obtained by the indirect subsidiary Celpa, for investment in Tramoeste, Low Tocantins basin System, distribution and substation works, which bear interest of 11% per annum and have final maturity on Dec. 15, 2008.
- b. Financial restructuring: Assumption by Rede Empresas de Energia Elétrica S/A on Nov. 30, 2006 according to Decision DIR1005/2006-BNDES, of the debts of EEVP and of DENERGE, arising from funding contracts No. 97.2.514.31 (EEVP), 03.2.398.3.1 (DENERGE); 04.2.179.3.1 (DENERGE) and sub credit "D" (/047) of Financing Contract 98.2.022.3.1(EEVP), as well as of QMRA, related to Financing Contract No. 98.2.315.3.1, in a total amount of R\$ 548,985, as well as their consolidation and rescheduling, according to following conditions:
 - Sub credit "A": R\$ 97,143
 - Sub credit "B": R\$185,014
 - Sub credit "C": R\$16,828
 - Sub credit "D": R\$250,000

Amortization periods:

- . Sub credit "A": one single installment, maturing on Dec. 15, 2006.
- . Sub credits "B" and "C": in 40 quarterly installments, with the following progression:
 - 15% in 12 quarterly and successive installments, each at the amount of the percentage of principal coming due, divided by the number of future amortization installments, the first on Dec. 15, 2006, and the last on Sep. 15, 2009;
 - 85% in 28 quarterly and successive installments, each at the amount of the percentage of principal coming due, divided by the number of future amortization installments, the first on Dec. 15, 2009, and the last on Sep. 15, 2016;
- . Sub credit "D": in 5 quarterly and successive installments, the first on Dec. 15, 2007, and the last on Dec. 15, 2008.

Interest on Sub credits "A" and "B":

- . 4% per year above the Long-Term Interest Rate - TJLP; interest charged on Sub credit "A" on Dec. 15, 2006, concerning Sub credit "B", quarterly paid, starting on Dec. 15, 2006, together with installments of the principal.

Interest on Sub credits "C" and "D":

- . 5% per year above the Long-Term Interest Rate - TJLP; interest charged quarterly, starting on Dec. 15, 2006, together with installments of the principal.

Guarantees: pledge of shares of subsidiaries and controlling companies.

6. Eletrobrás - substantially represented by contracts with the following purposes:
 - a. Program “Luz no Campo e Luz para Todos” in the controlled companies Cemat, Celpa and Celtins, amounting to R\$105,084, R\$159,372 and R\$33,157, on December 31, 2006, respectively, all with a 24 month grace period and an amortization period of 120 months, bearing interest of 6% per year, with monthly amortization.

In 2006, the subsidiary Cemat received funds in the amount of R\$ 56,252, to be applied in the program *Luz Para Todos*.
 - b. Eletrobrás - loans taken for the expansion of the generation, transmission, distribution and commercialization systems in the controlled company Cemat, amounting to R\$ 7,356 on December 31, 2006. The original agreement was issued on July 1, 1996, and the maturity date of the last contract is on August 15, 2022, with interest rates varying between 6% and 12% per year, plus IGP-M, UFIR and FINEL variation.
7. Finame - investments in the transmission, distribution and commercialization systems in the controlled company Cemat. Interest rate of 5% per year plus URTJLP variation, with monthly amortization and final maturity date on June 30, 2008.
8. Working capital:
 - a. Finance restructuring: Grupo Rede, concluded in 2003 its refinancing of the short-term loans initiated in 2002, obtained with the Private Market and amounting to R\$ 252 million, with a six month grace period, amortization in 42 monthly installments, final maturity date in August 2007 and bearing interest at 6% per annum plus CDI variation.
 - b. Working capital – All in local currency, with rates ranging from CDI plus 0.30% p.a. to CDI plus 8.73% p.a., with last maturity in October 2009.
 - c. Investment - agreement with Unibanco with the purpose of constructing the Juara and Juina Transmission Line in the controlled company Cemat, with interest rates at 4.5% per annum plus CDI variation, amortization in 19 monthly installments, the first installment due in February 2006 and the last one in August 2007.
 - d. The subsidiary Tangará Energia S.A., on July 14, 2006, raised funds for working capital with Unibanco S.A. in the amount of R\$ 86,000, with final maturity on July 15, 2013 and bearing interest of CDI plus 3.20% p.a.
9. On January 24, 2006 funds were raised with the issuance of quotas of the Receivables Investment Funds (Fundo de Investimentos em Direitos Creditórios – FIDC), in the amount of R\$ 87,600, accounted for by the Subsidiary Caiuá Distribuição de Energia S.A., registered with CVM on January 6, 2006, under CVM/SER/RFD/2006/001 number, whose corresponding issue may reach 387 quotas, totaling an initial amount of R\$ 116,100. From that, 367 are senior quotas and 20 subordinated quotas, which will be subscribed exclusively by Caiuá Distribuição de Energia S.A. The period for amortization of the Fund is 5 years, with 1 year of grace period for payment of the principal and 4 years of monthly

amortization of the principal plus interest, at the cost of interest indexed to CDI plus 2.25% p.a.

The fund is of the closed type, having as manager, Intrag Distribuidora de Títulos e Valores Mobiliários Ltda, as Leader Institution Unibanco – União de Bancos Brasileiros S.A., as Intermediary Institution Banco Itaú BBA S.A. and as Contracted Intermediary Institution, BES Investimento do Brasil S.A. – Investment Bank, guaranteed by receivables from electricity group "B" consumers in the municipalities of Presidente Prudente, Presidente Epitácio and Presidente Venceslau.

On May 3, 2006, there was a new release of FIDC funds for subsidiary Caiuá – Distribuição de Energia S.A., in the amount of R\$ 22,515 corresponding to 75 senior quotas.

Foreign currency

1. Federal Treasury: restructuring of the foreign debts of the controlled companies Cemat and Celpa, as follows:

Cemat: agreements on March 18, 1998 and September 22, 1999, with interest rates between 6.02% and 8.20% per annum, plus semi-annual Libor rate and exchange rate variation. Final maturity date on April 15, 2024 with semi-annual amortization.

Celpa: agreement on December 31, 1997, with interest rates between 4.3% and 11% per annum, plus semi-annual Libor rate and exchange rate variation. Final maturity date on April 15, 2024 with semi-annual amortization.

2. On February 14, 2006, subsidiaries Centrais Elétricas do Pará S.A. – CELPA and Centrais Elétricas Matogrossenses S.A. - CEMAT issued US\$ 100 million in "Notes Units", US\$ 50 million for CELPA and US\$ 50 million for CEMAT. The Notes will have a total period of 6 years for settlement, 3 years of grace period and 3 years for amortization of the principal amount. The fund raising cost was 9.5% per year, plus exchange rate variation, with payment of semi-annual interest. The principal amount of that operation was hedged against exchange rate fluctuations, through derivative instruments in R\$.

3. On July 25, 2006, subsidiary Centrais Elétricas Matogrossenses S.A. - CEMAT received US\$ 79,500,000.00 (seventy nine million and five hundred thousand US dollars), as part of the loan funds approved by Inter-American Development Bank ("IDB"), from a total of US\$ 114,500,000.00 (one hundred fourteen million and five hundred thousand US dollars). From the total amount released, US\$ 40,000,000.00 (forty million US dollars) comes from own resources of IDB (called "A Loan" or Part A) and US\$ 39,500,000.00 (thirty nine million and five hundred thousand US dollars) comes from a syndicate of banks (club deal) composed of Banco Société Generale and Banco Itaú Europa. Part A of the financing will have a total term of 9 (nine) years for settlement, with a 3 (three) year grace period plus 6 (six) years for amortization of the principal amount. Part B will have a total term of 6 (six) years for settlement, with 3 (three) years of grace period plus 3 (three) years for amortization. Amortization will be quarterly made and during the grace period there will quarterly payment of charges. Part A cost corresponds to Libor plus spread of 4.25% p.a., and Part B cost corresponds to Libor plus spread of 3.875% p.a. The principal amount of the operation was hedged against exchange rate fluctuations (Swap) at rates ranging between IGPM plus spread of 4.23% p.a. and IGPM plus spread of 5.39% p.a.
4. On July 25, 2006, the subsidiary Centrais Elétricas do Pará S.A. - CELPA, received US\$ 100,000,000.00 (one hundred million US dollars), as part of the loan funds approved by Inter-American Development Bank ("IDB"), from a total of US\$ 135,000,000.00 (one hundred and thirty five million US dollars). From the total amount released, US\$ 40,000,000.00 (forty million US dollars) comes from own resources of IDB (called "A Loan" or Part A) and US\$ 60,000,000.00 (sixty million US dollars) comes from a syndicate of banks (club deal) composed of Banco Société Generale and Banco Itaú Europa. Part A of the financing will have a total term of 9 (nine) years for settlement, with a 3 (three) year grace period plus 6 (six) years for amortization of the principal amount. Part B will have a total term of 6 (six) years for settlement, with 3 (three) years of grace period plus 3 (three) years for amortization. Amortization will be quarterly made and during the grace period there will quarterly payment of charges. Part A cost corresponds to Libor plus spread of 4.25% p.a. and Part B cost corresponds to Libor plus spread of 3.875% p.a. The principal amount of the operation was hedged against exchange rate fluctuations (Swap) at rates ranging from IGPM plus spread of 4.23% p.a. to IGPM plus spread of 5.50% p.a.

Guarantees

The loans, financing and debentures are guaranteed by the financed assets as collateral, promissory notes, the majority shareholders' surety, and revenues from future electric power supply.

e. Loans, financing and debentures movement:

<u>Company</u>	<u>Principal</u>		
	<u>Charges</u>	<u>Current</u>	<u>Non-current</u>
<u>Local currency:</u>			
Balance on December 31, 2005	852	43,100	112,190
In flow		59,547	74,163
Charges	57,944	1,328	7,454
Monetary and exchange variation	240	1,384	5,359
Transferred from Denerge - Debt Assumption (a)	6,547	79,188	382,856
Transferred from EEVP- Debt Assumption (a)	152	6,450	29,326
Transferred from QMRA - Debt Assumption (a)	2,800	97,448	
Transfers	9,496	235,004	(244,500)
Contract renegotiation with term extension	(5,261)	(173,038)	178,299
Payments	(56,685)	(190,915)	
Balance on December 31, 2006	16,085	159,496	545,147
		<u>Principal</u>	
<u>Consolidated:</u>			
<u>Local currently:</u>	<u>Charges</u>	<u>Current</u>	<u>Non-current</u>
Balance on December 31, 2005	14,553	564,325	647,889
In flow		320,594	744,657
Charges	206,965	5,246	19,531
Acquisition of the subsidiary -Vale Distribuidora	1,369	44,156	19,567
Acquisition of the subsidiary - Rede Comercializadora	946	8,759	2,099
Monetary variations	734	2,034	8,251
Transferred from Denerge-Debt Assumption (a)	6,547	79,188	382,856
Transferred from EEVP-Debt Assumption (a)	152	6,450	29,326
Transfers	30,440	777,064	(807,504)
Contract renegotiation with term extension	(5,261)	(184,149)	189,410
Payments	(203,553)	(1,044,447)	
Balance on December 31, 2006	52,892	579,220	1,236,082
<u>Foreign currency:</u>			
Balance on December 31, 2005	2,213	69,145	157,947
In flow			607,271
Charges	45,346		
Exchange variations	199	(1,136)	(23,297)
Transfers		11,234	(11,234)
Payments	(33,044)	(68,090)	
Balance on December 31, 2006	14,714	11,153	730,687
Total balance on December 31, 2006	67,606	590,373	1,966,769

(a) See note 14 item b

f. Restrictive conditions

Certain loans and financing contracts are subject to certain restrictive conditions and include clauses that require the Company and its controlled companies to maintain some financial indexes between pre-established parameters.

In the opinion of the management of the Company and its subsidiaries, such these conditions and clauses are being met appropriately.

22. DEBENTURES

a) Composition:

Company and Consolidated										
				2006		2005		2004		
				Charges		Principal				
Debentures	Series	Number of Debentures Issued	Compensation	Current	Non-current	Current	Non-current	Total	Total	Total
Simple	UN	13,253	10% pa	169		25,083	14,632	39,884	63,931	85,607
1st Issuance	UN	3,734,980	8.5% pa	67		11,124		11,191	21,985	31,828
2nd Issuance	UN	3,734,931	11.5% pa	456		55,616		56,072	55,069	53,146
3rd Issuance	UN	167,000	IGPM + 12.5% pa	13,016		37,745		50,761	97,865	144,997
				13,708	-	129,568	14,632	157,908	238,850	315,578

b) Non-current installments (principal and charges) have the following maturities:

	2006	2005	2004
Starting in 2006			82,176
2007		138,642	134,924
2008	14,632	14,375	13,877
	14,632	153,017	148,801

c) Breakdown of debt balance per currency/indexing unit:

Currency/indexing unit	2006		2005		2004	
	%		%		%	
Local currency:						
URTJLP	107,147	67.85	140,985	59.03	170,580	54.05
IGP-M	50,761	32.15	97,865	40.97	144,998	45.95
	157,908	100	238,850	100	315,578	100

d) The indexes, the adjustment basis of loans, financing and debentures, presented the following variations in the year:

Currency/indexing unit:	Variation (%)		
	2006	2005	2004
URTJLP (Long-Term Interest Rate Reference Unit)	1,54	3,58	3,66
IGP-M (General Price Market Index)	3,85	1,20	12,41

e) Details about debentures:

Local currency

Single Series - Issue of 13,253 debentures on October 15, 1998, in the amount of R\$133,293; they are nominative and not convertible into shares, bearing interests of 10% per annum, and were capitalized until July 15, 1999, fully subscribed by BNDES - Banco Nacional de Desenvolvimento Social, with flotation guarantees and monthly installments and the final installment due on July 15, 2008.

1st. Issue convertible into shares - Issue of 3,734,980 debentures on December 4, 1997, in the amount of R\$45,102, bearing interests at rate of 11.5% per annum, up to the subscription and paid-in dates, without exceeding R\$60,000. Subscribed by BNDES Participações S.A. - BNDESPAR and monthly installments with final maturity on December 4, 2007. Guarantees are provided by Centrais Elétricas Matogrossenses S.A. - Cemat's shares

2nd. Issue convertible into shares - Issue of 3,734,931 debentures on December 4, 1997, in the amount of R\$ 45,102, that will added of interests at 11.5% per annum, up to the subscription and paid-in dates, without exceeding R\$60,000. Subscribed by BNDES Participações S.A. - BNDESPAR and amortization only at the final maturity date, on December 4, 2007. Guarantees are provided by Centrais Elétricas Matogrossenses S.A. - Cemat's shares.

3rd. Issue - At the Extraordinary General Shareholders' Meeting of March 29, 2000, the Company approved the 3rd. debenture public issue, registered with CVM on May 19, 2000 (No. CVM/SER/DEB/2000/015), issued on April 1, 2000. Issue of 167,000 single debentures, not convertible into shares, nominative, with flotation guarantees, amounting to R\$ 167,000.

Redemption of debentures:

In accordance with the 3rd Issue of Simple Debenture's Indenture, the company stated on September 13, 2001 the term and remuneration conditions for the second period of interest calculation, the statement has been delivered to the Trustee (Pavarini Distribuidora de Títulos e Valores Ltda.) as follows:

- a. As deliberated by the Company's Administration Council at the meeting held on September 12, 2001, the conditions for the second "period of interest calculation" of the 3rd Issue debentures are as follow:
- The second "period of interest calculation" is 18 (eighteen) months, start on October 1st, 2001 and end on April 1st, 2003.
 - For the second "period of interest calculation" the interest will be the equivalent to 105% of the CDI - Interbank Deposit Certificate annual variation, calculated on a 252-day basis.
- b. Some changes were implemented on December 1st, 2002, as per the Debenture Holders' Meeting Minute of Dec. 20, 2002, as follows:
- Advance of the re-agreement date from April 4, 2003 to December 1, 2002.
 - The new interest rate index is IGP-M plus 12.5% per annum.
 - The payment of the first installment is December 1, 2005.
 - The amortization is to be done annually.
 - The maturity date of the final installment is December 1, 2007.
 - The short-term principal plus interests incurred until November 30, 2002 will be incorporated in the long-term principal.
 - The other clauses and conditions remain the same.

c. Operations with debentures:

		Principal	
		Current	Non-current
<u>Local currency:</u>	<u>Charges</u>		
Balance on December 31, 2005	12,519	73,314	153,017
Charges	24,458		
Monetary variations	1,039	613	4,170
Transfers	13,206	129,349	(142,555)
Payments	(37,514)	(73,708)	
Balance on December 31, 2006	13,708	129,568	14,632

23. REGULATORY CHARGES PAYABLE

	2006	2005	2004
CURRENT			
Financial compensation for use of water resources	13	95	149
Global Reversion Reserve Quota - RGR	2,613	3,057	2,924
Fuel Consumption Account Quota - CCC	22,302	3,571	8,924
National Fund for Technology and Scientific Development - FNDCTE	13,308	12,183	-
Scientific and Technological Research and Development	11,097	16,952	-
Energy Effectiveness Program - PEE	41,294	30,555	-
Energy Research Studies - EPE	5,097	8,522	-
Research Institutions	19,814	-	-
M.M.E.	9,705	- 0	-
Program for Alternative Electric Power Sources - Proinfa	456	413	-
Energy Development Account Quota - CDE	5,864	6,613	3,176
Inspection rate - ANEEL	724	638	603
	<u>132,287</u>	<u>82,599</u>	<u>15,776</u>
 Installment plan:			
Global Reversion Reserve Quota - RGR (a)	1,271	3,987	3,576
Fuel Consumption Account Quota - CCC (b)	2,483	7,794	6,969
Energy Development Account Quota - CDE (c)	1,038	3,257	2,914
	<u>4,792</u>	<u>15,038</u>	<u>13,459</u>
 Total	<u>137,079</u>	<u>97,637</u>	<u>29,235</u>
 NON-CURRENT			
 Installment plan:			
Global Reversion Reserve Quota - RGR (a)	-	909	17,310
Fuel Consumption Account Quota - CCC (b)	-	1,776	8,712
Energy Development Account Quota - CDE (c)	-	743	3,641
	<u>-</u>	<u>3,428</u>	<u>29,663</u>

(a) Debt payment in installments granted by Centrais Elétricas Brasileiras S.A. - ELETROBRÁS to the controlled company Centrais Elétricas Matogrossenses S.A. - CEMAT concerning the RGR - Global Reversion Reserve debits from the period September 2003 to February 2004 amounting to R\$ 9,739, to be paid in 36 monthly and successive installments, starting on April 30, 2004 and with the last installment on March 30, 2007. The amount is restated by the IGP-M variation plus 1% monthly interest.

(b) Debt payment in installments granted by Centrais Elétricas Brasileiras S.A. - ELETROBRÁS to the controlled company Centrais Elétricas Matogrossenses S.A. - CEMAT concerning the CCC - Fuel Consumption Account debits from the period June 2003 to February 2004 amounting to R\$ 19,031, to be paid in 36 monthly and successive installments, starting on April 30, 2004 and with the last installment on March 30, 2007. The amount is restated by the IGP-M variation plus 1% monthly interest.

- (c) Debt payment in installments granted by Centrais Elétricas Brasileiras S.A. - ELETROBRÁS to the controlled company Centrais Elétricas Matogrossenses S.A. - CEMAT concerning the CDE - Energy Development Account debits from the period September 2003 to February 2004 amounting to R\$ 7,955, to be paid in 36 monthly and successive installments, starting on April 30, 2004 and with the last installment on March 30, 2007. The amount is restated by the IGP-M variation plus 1% monthly interest.

24. SUB-ROGATION - CCC

In accordance with ANEEL Resolution no. 784, dated December 24, 2002, and ANEEL Authoritative Resolution no. 81, dated March 9, 2004, the controlled company Cemat was included in the sub-rogation of the right to use the CCC - Fuel Consumption Account Quota. This was due to the development of energy projects that, among others, resulted in the reduction of expenses with the CCC, contributing to reasonable tariffs for the end-consumers within the Transmission System Brasnorte/Juara/Juína.

For the purpose of calculating the benefit, the enterprise will be divided into 2 different phases:

In the 1st step, named “Linha de Transmissão Campo Novo/Brasnorte” (Transmission Line Campo Novo/Brasnorte), R\$ 12,094 was invested. After ANEEL’s inspection and approval, the Company received as sub-rogation benefit the amount of R\$ 6,026 in 2005 (R\$ 3,045 in 2004), equivalent to 75% of the cost incurred in the project;

For the 2nd step, named “Linha de Transmissão Juara/Juína” (Transmission Line Juara/Juína), R\$ 55,904 was applied to complete the work. The amount subrogated for the work is R\$ 41,928, from which R\$ 32,623 was received in 2006 and R\$ 9,306 projected for 2007, what corresponds to 75% of the investment;

The following projects were also approved:

Transmission System Sapezal, approved by Authorizing Resolution No. 320 of Sep. 19, 2005, in a total investment of R\$ 25,661 and subrogation of R\$19,246, to be received in 153 installments starting in January 2006. In 2006 an amount of R\$ 549 was received;

Tabaporã System, approved by Resolution 512 dated Apr. 11, 2006, in a total investment of R\$ 3,078 and subrogated value of R\$ 2,101, which was fully received in 2006.

For the year 2007, engineering corporate management is conducting studies of projects to be implemented, classified as CCC subrogation.

25. PROVISION FOR CONTINGENCIES AND ESCROW DEPOSITS

The provision is composed as follows:

Consolidated

	2006			2005			2004		
	Provision			Provision			Provision		
	In the Year	Accumulated Balance	Escrow Deposits	In the Year	Accumulated Balance	Escrow Deposits	In the Year	Accumulated Balance	Escrow Deposits
Civil - Consumers (a)	(2,617)	8,003	4,748	(1,505)	10,620	3,254	(208)	12,125	1,871
Labor (b)	849	14,097	24,517	(4,944)	13,248	18,169	(1,172)	18,192	18,236
Tax-related:									
Cofins (d)	(28,882)	-	-	3,806	28,882	-	16,769	25,076	-
PIS (d)	(16,226)	-	705	1,794	16,226	703	4,083	14,432	-
Income tax (d)	(16,404)	-	1,354	2,931	16,404	-	1,770	13,473	-
Social contribution tax (d)	(2,088)	-	39	(2,645)	2,088	-	115	4,733	-
CPMF (d)	(1,089)	-	-	150	1,089	-	939	939	-
Social security	-	-	135	-	-	198	-	-	-
ICMS	-	-	1,489	-	-	7	(6,037)	-	-
Others	(1,464)	-	87	(1,283)	1,464	88	2,740	2,747	229
	(66,153)	-	3,809	4,753	66,153	996	20,379	61,400	229
	(67,921)	22,100	33,074	(1,696)	90,021	22,419	18,999	91,717	20,336

Consolidated

	Civil	Labor-related	Tax-related	Total
Balance on December 31, 2005	10,620	13,248	66,153	90,021
Recognition	1,478	2,038	4,888	8,404
Write-off/Reversal	(4,095)	(1,189)	(75,890)	(81,174)
Adjustment	-	-	4,849	4,849
Balance on December 31, 2006	8,003	14,097	-	22,100
Passive Contingencies:				
Possible (c)	20,223	39,359	42,210	101,792

- a. Civil proceedings mostly refer to discussions about the value of electricity bills, whereby the consumer requests the revision or cancellation of the invoice, as well as to claiming of material and moral damages by consumers, due to the suspension of the electricity supply for lack of payment, irregularities in the electricity meters, or arising from variations in the electricity voltage or momentary power failure, in addition to actions whereby consumers seek refund of amounts, because of an increase in electricity tariffs determined by Rulings 38 and 45/86, of the former National Water and Electricity Department - DNAEE, in the period of frozen prices during Cruzado Plan.
- b. Labor actions basically refer to claims of former employees seeking to receive overtime, hazardous duty premium, stand-by time, as well as compensation for damages related to occupational accidents, collection of FGTS fine associated with Complementary Law 110/2001, and actions filed by former employees of service providers the Company had contracted claiming jointly liability for the payment of termination amounts.

Provisions were recognized for the mentioned legal civil and labor actions with likelihood of unfavorable outcome to the Company, according to evaluation by the entity's legal counselors. In general, we estimate about 2 to 3 years, on average, the period for said actions with likelihood of losses to have a final judgment and the Company to have actual expenditure of the accrued amounts, in case the results are unfavorable.

- c. The Company and its subsidiaries also presented the values of the contingent liabilities whose likelihood of favorable outcome is possible. For understanding the chances of success as reasonable, there was no accrual of the said amounts and, in case the contingencies do become losses, we estimate in about 3 to 5 years, on average, the period for the actual expenditure by the Company.

Among tax proceedings, an administrative action is in course in the subsidiary CEMAT associated with notice of deficiency and imposition of fine – AIIM No. 16741001600003200516, process No. 16/06, in process with the Finance Department of Cuiabá/MT (OS 5811/06). The notice of deficiency refers to (i) alleged undue credit of the ICMS rate difference levied on the acquisition of goods to be added to the Company's permanent assets, (ii) alleged undue credit of ICMS levied on the acquisition of electricity for own consumption and (iii) alleged undue ICMS credit on the purchase of diesel in operations benefited by financial subsidy. Only the infraction listed in item (ii) above is rated as a possible loss, in the amount of R\$9,882,304.80. The others are classified as remote losses. If the Company does not succeed in that administrative proceeding, it will file a legal action to cancel the mentioned notice of deficiency.

Subsidiaries CELTINS and CFLO were penalized by the Federal Revenue Service, with imposition of separate fines, for alleged offsetting of taxes not authorized in the law. A refutation and appeal were filed that await judgment at administrative level. The estimated time for a decision is approximately 2 years. In case of an unfavorable outcome at administrative level, the Company will file a lawsuit aiming to reverse that penalty.

The Federal Revenue Service penalized the subsidiary EEB for considering certain financial expenses arising from loans obtained as non-deductible. A refutation was filed, which is awaiting final judgment at administrative level. The estimated time for a final administrative decision is about 3 years. In case the outcome is unfavorable to the Company, it will file a lawsuit aiming to reverse the penalty.

- d. On Sep. 15, 2006, the Company and its subsidiaries joined the Extraordinary Tax Debt Installment Program of federal taxes and charges (PAEX), established by Provisional Measure No. 303/2006, including federal taxes and charges in discussion at administrative or legal level with the Federal Revenue Service, for which the chances of a favorable result for the Company and its subsidiaries were remote and, in some cases, possible. For that reason, those administrative or legal proceedings were waived, remaining in course only the administrative or legal actions whose likelihood of favorable outcome for the Company is probable. (see note 20)

26. LABOR INDEMNITY - BRESSER PLAN

On December 21, 2004, CELPA and the Union of Employees of Urban Industries of the State of Pará entered into an agreement regarding a lawsuit filed by the Union pleading for a 26.06% restatement of salaries frozen in June 1987 (the "Bresser Plan"), homologated in all terms of the petition.

The amount homologated in the agreement amounts to R\$370,000, with monetary restatement based on the accumulated variation of INPC/IBGE and monthly installments until August 25, 2012, as follows:

In 2007, R\$ 39,872, in 2008, R\$ 45,901, in 2009, R\$76,426, in 2010, R\$ 52,381, in 2011, R\$52,381, and in 2012 R\$ 70,171.

In the year 2006, the effect on the Company's income/loss related to monetary restatement was R\$ 6,905 (R\$ 19,867 in 2005).

27. OTHER LIABILITIES

	Current		
	2006	2005	2004
<u>Company</u>			
Insurance entities	94	2	329
IOF to refund	6,433	1,793	-
Swap - Unibanco	1,517	-	-
Other creditors	-	-	818
Others	-	19	2,766
	<u>8,044</u>	<u>1,814</u>	<u>3,913</u>

	Current			Non-current		
	2006	2005	2004	2006	2005	2004
<u>Consolidated</u>						
Collection agreements	3,299	3,883	1,856	-	-	-
Public lighting fee	12,439	9,359	12,270	-	-	-
Bills paid in double	6,829	5,573	-	-	-	-
Advances from consumers	4,650	3,260	-	-	-	-
Eletrobrás-principal and interest Compulsory Loan	1,567	1,254	7,659	-	-	-
Private Pension Plan - Normal contribution	1,143	1,009	1,444	-	-	-
Private Pension Plan - Debt (note 38 d)	14,876	10,899	7,120	36,719	45,552	49,327
Fuel Consumption Account - CCC	1,078	3,113	2,652	-	-	-
Energy transportation for the Basic Energy Network	16,950	3,153	251	-	-	4,069
Tariff charges (a)	6,728	11,313	16,784	-	-	-
Assets acquisition	56	54	-	2,937	2,937	2,937
Compensation account of the Part A costs variance	6,546	-	-	38,599	19,118	-
Reversion/amortization reserve (b)	-	-	-	7,324	7,324	4,982
Power transference - Itaipu Binacional	53	427	31	-	-	1,530
Enerpeixe	1,735	1,735	-	-	-	-
Obligations estimated	-	-	-	-	22,416	-
ICMS Subsidy - CCC (c)	-	-	-	98,496	73,086	43,937
Swap operations	-	-	-	43,349	-	-
IOF to refund	21,026	9,380	-	-	-	-
Other creditors (d)	21,308	29,488	20,498	1,438	21,739	39,094
Others	5,793	9,057	41,173	16,682	9,226	22,661
	<u>126,076</u>	<u>102,957</u>	<u>111,738</u>	<u>245,544</u>	<u>201,398</u>	<u>168,537</u>

- Refers to the Emergency Capacity Charges in Consolidated and Electricity Acquisition Charges
- Refers to funds from Subsidiaries invested until December 31, 1971 in the expansion of the Electricity Public Service, in the terms of the prevailing law.
- Refers to refund of ICMS levied on fuel associated with the Fuel Consumption Account - CCC to companies with thermal generation acting in the isolated system, unable to fully offset the ICMS against debts assessed in the sale of electricity. Article 86, of Law 10.833 of December 29, 2003, which amends article 8 of Law No. 8.631, dated March 4, 1993, established that CCC should fully absorb that burden in the year 2004 and partially during the years from 2005 to 2008. In the subsidiary Celpa, the amount is R\$ 51,075 and at Cemate it is R\$ 47,421.
- Refers to the credits acquired and recorded in the non-current assets, which agreements determine payments in 24 and 50 monthly successive installments.

28. DEFERRED INCOME

Refers to the bonus the Company received, in the amount of R\$ 60,000, related to the swap contract entered into between the Company and Unibanco to guarantee a debt renegotiation contract with BNDES.

Such amount is appropriated in 60 monthly installments, starting in December 2006.

29. SHAREHOLDERS' EQUITY - COMPANY

The Company's capital as of December 31, 2006 amounted to R\$ 538,052, and its composition by share classes and main shareholders was as follows:

Shareholders	Number of shares in thousands					
	Common	%	Preferred	%	Total	%
Empresa de Eletricidade Vale Paranapanema S.A.	174,772	79,03			174,772	61,48
Denerge - Desenvolvimento Energético S.A.	43,614	19,72	13,282	21,05	56,896	20,02
BNDES Participações S.A. - BNDESPAR	-	-	45,993	72,88	45,993	16,18
Others	2,772	1,25	3,834	6,07	6,606	2,32
	<u>221,158</u>	<u>100,00</u>	<u>63,109</u>	<u>100,00</u>	<u>284,267</u>	<u>100,00</u>

Shareholders are entitled to minimum statutory dividends of 25% of net income, duly adjusted. Dividends payable on preferred shares would be increased by 10% in relation to those payable on common shares.

The Extraordinary General Meeting held on July 25, 2006, associated with the Company's accreditation to Level II of Corporate Governance at the Stock Exchange of São Paulo - BOVESPA, approved the splitting of the shares that compose the capital stock, without any changes to their value, at the ratio of 4 (four) shares of the same type to each existing share. The shares resulting from the splitting will grant their title-holders rights identical to those of shareholders, in accordance with the Company's articles of incorporation.

Each common share entitles to one vote in general meetings.

Preferred shares are not convertible into common shares and do not entitle to vote at General Meetings. Each preferred share entitles to:

- receipt of non-cumulative dividends at least 10% (ten percent) higher than those paid on common shares;
- priority in the refund of capital, without premium, if the company is liquidated and, after common shares are refunded, participation on equal terms with the latter in the apportionment of the equity surplus then assessed;

- c) participation, on equal terms with common shares, in the distribution by the company, of profit, bonuses, or other advantages, including increase in capital with capitalization of reserves.

Capital reserves:	2006	2005	2004
Fixed assets return in course	3,745	3,745	3,747
Donations and capital subsidy for investments	713	713	713
	<u>4,458</u>	<u>4,458</u>	<u>4,460</u>

30. ENERGY ELECTRIC PROVISION AND SUPPLY

Class of customer	Number of consumers (*)			MWh (*)			R\$			Consolidated
	2006	2005	2004	2006	2005	2004	2006	2005	2004	
Residential	2,639,925	2,411,168	2,316,774	4,431,043	4,103,741	3,837,511	1,726,991	1,557,621	1,368,603	
Industrial	26,391	23,494	22,986	3,244,174	2,536,475	2,783,285	853,091	745,802	690,949	
Commercial, services and other activities	262,799	244,457	239,875	2,625,141	2,464,971	2,294,204	1,104,617	1,023,165	887,667	
Rural	186,390	134,954	115,758	809,552	708,620	637,310	195,021	174,502	140,988	
Governmental	30,831	27,717	26,496	726,547	652,945	612,054	281,355	247,204	212,138	
Public lighting	1,355	1,201	1,120	677,856	623,948	606,419	137,699	123,876	114,965	
Public service	3,756	3,283	3,138	521,269	476,737	472,864	133,725	116,960	107,940	
Own consumption	907	857	880	45,497	49,071	48,012	-	-	-	
Provision not billed	-	-	-	-	-	-	35,632	22,173	14,536	
Electric line rent	-	-	-	-	-	-	81,142	41,223	23,202	
Extraordinary Revenue Recomposition	-	-	-	-	-	-	(55,024)	(64,349)	(115,796)	
Revenue reduction - low income consumers	-	-	-	-	-	-	79,564	66,458	56,016	
Reduction in the tariff of irrigation	-	-	-	-	-	-	3,276	-	-	
Supply not billed - Revenue recomposition	-	-	-	-	-	-	35,695	17,108	7,641	
Supply not billed - RTE increase	-	-	-	-	-	-	1,604	2,563	(4,835)	
	<u>3,152,354</u>	<u>2,847,131</u>	<u>2,727,027</u>	<u>13,081,079</u>	<u>11,616,508</u>	<u>11,291,659</u>	<u>4,614,388</u>	<u>4,074,306</u>	<u>3,504,014</u>	
Supply	-	-	-	835,112	993,426	721,003	100,242	91,494	81,727	
Transmission	-	-	-	-	-	-	-	1,060	1,084	
Other revenues	-	-	-	-	-	-	60,016	53,002	47,616	
	<u>3,152,354</u>	<u>2,847,131</u>	<u>2,727,027</u>	<u>13,916,191</u>	<u>12,609,934</u>	<u>12,012,662</u>	<u>4,775,073</u>	<u>4,219,862</u>	<u>3,634,441</u>	

(*) Unaudited information.

Distribution subsidiaries had the following Annual Tariff Adjustment:

<u>Subsidiaries</u>	<u>Approving Resolution</u>	<u>Date</u>	<u>Average Tariff</u>
CELPA	364	3/8/06	7.66%
CEMAT	312	6/4/06	5.17%
CELTINS	357	3/7/06	16.81%
CAIUÁ D	335	9/5/06	(1.20%)
EDEVP	336	9/5/06	3.27%
EEB	334	9/5/06	13.31%
CNEE	333	9/5/06	6.15%
CFLO	287	30/1/06	5.80%

31. ENERGY PURCHASE AND SALE AT THE ELECTRIC POWER COMMERCIALIZATION CHAMBER - CCEE

	<u>Consolidated</u>		
	<u>2006</u>	<u>2005</u>	<u>2004</u>
Energy purchase at CCEE	40,693	10,054	11,998
Energy sale at CCEE	<u>37,169</u>	<u>13,160</u>	<u>8,644</u>

32. ELECTRICITY PURCHASED FOR RESALE

	2006	2005	2004	2006	2005	2004
	MWh*	MWh*	MWh*	R\$	R\$	R\$
Centrais Elét. do Norte do Brasil - ELETRONORTE	1.424.359	2.613.657	4.881.180	86,497	155,957	255,969
Furnas Centrais Elétricas S.A.	3.024.988	1.970.463	1.032.937	202,190	136,983	86,305
Cia. Hidro Elétrica do São Francisco - CHESF	1.916.919	1.099.826	-	108,861	62,244	
Duke Energy	1.046.091	126.863	417.428	82,604	21,878	
AES Tietê	-	245.805	501.694		16,502	27,420
Copel Geração S.A.	949.437	724.745	212.386	64,600	44,199	16,235
Cia. Energética de São Paulo - CESP	1.463.960	718.759		100,391	44,455	
Light Serviços de Eletricidade S.A. - LIGHT	204.403	161.404		11,249	8,349	
CEEE	172.083	110.258		10,430	6,347	
EMAE	46.764	36.046		3,013	2,197	
Cemig Geração e Transmissão S.A.	429.734	10.397	40.368	31,163	1,359	4,527
Itamarati Norte S.A.	484.167	491.357	204.811	69,900	64,795	23,674
Enerpeixe	93.787			11,608		
Primavera Energia	10.672			2,627		
Rosal Energia S.A.	262.800	183.960		30,984	18,642	
Rede comercializadora de Energia S.A.	-	1.006.288	927.082	-	85,734	72,163
Eletrobrás repasse Itaipu	580.051	578.965	536.908	46,762	48,107	48,106
Araputanga Centrais Elétricas	81.714	165.191	158.504	9,755	18,722	17,270
Elettram	69.123	71.896	74.010	9,649	9,186	8,560
Arapucel Indaiavá	34.773	180.065	178.271	3,702	20,324	18,363
Arapucel Ombreiras	123.401	59.808		14,370	6,935	
Galera Centrais Elétricas	10.329	55.341		896	4,808	
Usina Nova América	9.203	40.132		1,072	4,347	
Usina Alto Alegre	27.134			3,380		
Usina Itamarati	30.066			3,315		
Usina São José da Estiva	31.210			3,160		
Global Energia	121.143	105.642	94.338	12,552	10,694	8,870
Guarantã Energética	51.185	65.876	84.246	5,420	6,526	7,869
Agropecuária Maggi	-	17.597	45.531	-	2,479	5,053
Maggi Energia	71.516	-		8,753		
Braço Norte Energia	9.154			2,251		
Socibe Energia S.A.	24.922			4,430		
Isamu Ikeda Energia S.A.	31.513			5,601		
Apiacas Energia S.A.	20.213			4,434		
Others	829.768	890.835	984.977	75,078	75,776	104,189
Program for Incentive of Alternative Power Sources				10,697		
Amortization of Part A costs		-		14,681	37,811	
(-) Deferral of Part A costs		-		(62,343)	(6,096)	
(-)Non-cumulative Pis credit		-		(24,314)	(18,761)	(15,769)
(-)Non-cumulative Cofins credit		-		(112,113)	(86,258)	(67,321)
	<u>13.686.582</u>	<u>11.731.176</u>	<u>10.374.671</u>	<u>857,305</u>	<u>804,241</u>	<u>652,051</u>

33. OPERATING EXPENSES

Company	Sales Expenses			General and Administrative Expenses			Other Operating Expenses		
	2006	2005	2004	2006	2005	2004	2006	2005	2004
Personnel	-	232	224	-	3,019	4,123	-	-	-
Management	-	-	-	476	1,464	1,933	-	-	-
Material	-	55	312	-	696	865	-	-	-
Third party services	-	4,147	4,769	2,934	9,072	14,823	-	-	-
CCC Quota	-	-	-	-	-	-	-	10,370	7,853
Depreciation and Amortization	-	-	-	-	580	744	-	-	-
Lease and Rents	-	17	4	-	428	405	-	-	-
Taxes	-	3	1	1,092	2,064	2,223	-	-	-
Others	-	95	211	252	934	1,558	75	5,928	5,802
	-	4,549	5,521	4,754	18,257	26,674	75	16,298	13,655

Consolidated	Sales Expenses			General and Administrative Expenses			Other Operating Expenses		
	2006	2005	2004	2006	2005	2004	2006	2005	2004
Personnel	21,769	24,552	24,684	67,516	68,151	72,930	-	-	-
Management	-	-	-	20,713	18,431	18,929	-	-	-
Material	959	869	1,541	21,223	16,333	13,847	-	2,317	-
Third party services	97,604	79,997	65,444	127,994	98,823	114,080	3	292	203
CCC Quota	-	-	-	-	-	-	201,140	139,851	96,150
Depreciation and Amortization	-	-	-	9,747	11,154	8,771	235	195	224
Lease and Rents	1,145	1,262	1,555	17,744	8,429	7,602	-	-	-
Taxes	785	479	293	32,421	21,832	20,347	-	148	1,192
Provision (Net of Reversal)	18,317	(28,914)	25,964	-	-	-	(10,002)	(7,560)	(8,279)
Program Power Effectiveness/Research and Development	-	-	-	-	-	-	45,098	35,768	6,924
Others	4,539	(107)	9,176	20,576	15,714	22,572	98,491	78,219	55,145
	145,118	78,138	128,657	317,934	258,867	279,078	334,965	249,230	151,559

Personnel expenses

	Sales expenses			General and Administrative Expenses		
	2006	2005	2004	2006	2005	2004
Salaries	15,233	16,817	17,213	50,280	48,107	51,681
Social charges - INSS	4,304	4,981	5,159	14,135	14,059	14,930
Social charges - FGTS	1,473	1,646	1,649	4,017	4,276	4,545
Social charges - Others	174	153	165	873	726	811
Contribution as foundation maintainer	150	212	397	3,820	1,299	2,673
Employer pension contribution indemnity of FGTS	435	743	101	1,284	4,247	1,008
(-) Transfers for order in transit	-	-	-	(6,893)	(4,563)	(2,718)
Total personnel expenses	21,769	24,552	24,684	67,516	68,151	72,930

34. OTHER FINANCIAL INCOME (EXPENSES)

	Company		Consolidated	
	2006	2005	2006	2005
Other financial income				
Compensatory fine and late payment charges	-	-	32	272
Interest on Novation of Invoices	-	-	6,568	2,173
Discount in in the Purchase of Energy	-	-	245	4
Homologated Finsocial Credit 586/2005 SRF	-	-	5,964	-
CSLL negative balance	-	-	-	2,295
Negative goodwill in the acquisition of tax credits	-	-	1,296	-
Other Financial Income	(864)	284	9,003	12,819
Total	(864)	284	23,108	17,563
Other financial expenses				
Fines for infractions	-	348	1,866	931
Bank fees	-	-	1,194	458
I.O.F. (Tax on Financial Transactions)	8,754	8,139	7,076	7,533
Swap operations	517	-	43,395	-
Expense Recovery	-	(1,166)	-	-
Various fines	602	-	2,771	846
Other Financial Expenses	276	385	9,753	21,083
Total	10,149	7,706	66,055	30,851

35. NON-OPERATING INCOME (EXPENSE)

	Company			Consolidated		
	2006	2005	2004	2006	2005	2004
Non-operating income						
Gains on writ-off of fixed assets and rights (a)	-	1,167	24,467	143,066	33,039	80,845
Other non-operating income	5	261	15,622	3,182	2,304	1,946
Subtotal	5	1,428	40,089	146,248	35,343	82,791
Other financial expenses						
Losses on write-off of fixed assets and rights	(828)	(370)	(97)	(20,447)	(12,570)	(6,432)
Losses on disposal of fixed assets and rights	(2,154)	(49)	(25)	(21,612)	(1,876)	(4,009)
Other non-operating expenses	(104)	(2,759)	(1)	(7,082)	(4,211)	(8,590)
Subtotal	(3,086)	(3,178)	(123)	(49,141)	(18,657)	(19,031)
Non-operating income (expense)	(3,081)	(1,750)	39,966	97,107	16,686	63,760

(a) The gain is basically represented by the disposal to Enel Brasil Participações Ltda., of shareholdings in the controlled companies Rede Power do Brasil S.A and Tocantins Energia S.A. as described in note 16 and 44.

36. PROFIT PARTICIPATION

On November 2002 a profit sharing program for the employees was implemented, based on previously agreed operational and financial targets. The amount of profit sharing recorded as operating cost and paid in 2006 was R\$ 2.594 (R\$ 502 in 2005 and R\$ 375 in 2004) in consolidated.

37. ELECTRIC SECTOR - GENERAL AGREEMENT

The Federal Government and the electric energy companies entered into the General Agreement Electric Sector through the Provisional Measure - MP n° 14/2001, which was converted into the Law n° 10.438/2002. This agreement covered the margin losses incurred by power distributors and generators during the Emergency Power Saving Program period; the additional costs of the so-called Portion A from January 1, 2001 to October 25, 2001; the portion of costs incurred with the purchase of electric power at CCEE owed to generators, named "free energy", and incurred until December 2002; and the replacement of contract rights provided in Attachment V of the Initial Contracts (purchase and sale of power) related to the Emergency Power Saving Program period, settled under Resolution numbers 480,481,482,483 and 484 of August 29, 2002, respectively.

The energy companies' revenue recomposition was made using tariff adjustments of 2.9% for both residential (except for the low-income classes) and rural consumers, and 7.9% for the other consumer classes. Additionally, BNDES approved a financing credit line of up to 90% of the amount needed for the recovery of losses from the Emergency Power Saving Program. The consolidated amount released until December 31, 2006 was R\$ 175,068 in consolidated, which will be amortized in 48 (forty-eight) monthly and successive installments beginning on the release date, adjusted at an interest rate of 1% (as spread) above the adjusted average rate applicable to SELIC - based on daily financing.

The items included in the General Agreement for the Electric Sector had been adjusted in accordance with the SELIC rate variation issued by the BACEN, plus 1% interest per year, except for the Portion A, which considered only the SELIC. On December 20, 2005, through Circular Letter n° 2.212, ANEEL determined the following procedures for the revenue calculation:

- For the item "Loss of Revenue" - the SELIC variation plus 1% interest per year will be used for adjustment of the financing credit line obtained from BNDES, applying the simple rate monthly capitalized. On the remaining 10% not financed, it will be calculated considering only the SELIC variation.
- For the item "Free Energy" - in cases in which the energy generator companies obtain the financing credit line, the simple SELIC monthly rate plus 1% interest per year will be used, otherwise, only the SELIC variation published by Bacen will be used.
- For the item "Part A" - only the SELIC variation is used as stated by BACEN.

Information for the years ended on December 31, 2006, 2005 and 2004 reflects the following adjustments resulting from the Agreement:

Rede Empresas de Energia Elétrica S.A. and Subsidiaries

	Balance 2004	Balance 2005	EDEV	Income for the year ended on December 31, 2006				
				Transf.	Operating income	Passed on to agents	Operating cost	Financial income
Current Assets								
Revenue recomposition	31,018	8,412	-	(16,098)	(2,713)			10,399
Free energy	36,761	32,714	40	(17,401)	(20,480)	(3,182)	537	7,881
Pre-paid expenses	2,015	-	43	6,100	(1,058)			2,515
Non - Current Assets								
Revenue recomposition	11,455	-		16,790				
(-) Allowance for doubtful accounts								(16,790)
Free energy	13,280	-		16,709				
(-) Allowance for doubtful accounts								(16,709)
Pre-paid expenses	41,322	6,770		(7,070)				300
Current Liabilities								
Free energy	(48,362)	(54,943)	(2,046)	20,709		32,600	817	(14,088)
Variation of Part A costs - offsetting account	-	(196)		(2,354)	(2,952)	(8)		(548)
Non - Current Liabilities								
Free energy	(29,314)	(11,989)		(20,709)				(2,771)
(-) Provision for losses								21,488
Variation of Part A costs - offsetting account	(1,513)	(3,231)		3,324				(93)
Total - net	56,662	(22,463)	(1,963)	-	(27,203)	29,410	1,354	(8,416)

ANEEL Regulatory Resolution 1, dated January 12, 2004, restated the amount previously set by Resolution numbers 483 and 484, dated August 29, 2002, relating to Free Energy, and also changed the maximum effective period for the application of the Extraordinary Tariff Recomposition - RTE on the electric power supply tariffs, excluding from this period the recovery of the amounts included in Portion A. Under Resolution n° 45, dated March 3, 2004, ANEEL also changed the percentage to be applied on the amount to be collected as per RTE relating to transfer of free energy, and determined the following for the controlled companies Caiuá Distribuição 63.5851%, Bragantina 85.4207%, Nacional 43.7283%, Celtins 92.3270%, Cemat 46.1021% and Celpa 46.4669%.

In accordance with the detailed study conducted by the Company's management, the period determined by ANEEL, is enough to recover those amounts for the companies CEMAT, CAIUA, EDEV, CELTINS, Nacional, and Bragantina. Due to changes in the amortization method, for Celpa the 52-month period was not enough to recover the sum of Revenue Loss and Free Energy. This year, a provision for losses on the realization of those assets was recognized.

38. PERIODIC ELECTRIC REVISION

The controlled companies underwent the Periodic Tariff Revision process, as defined in the Concession Agreement, and this revision was performed as follows:

ANEEL, through the Homologating Resolution numbers 25, 32, 23 and 34 of January 31, 2005, confirmed the result of the first periodic tariff revision on Caiuá Distribuição de Energia S.A., Empresa Elétrica Bragantina S.A., Cia. Nacional de Energia Elétrica e Cia. Força and Luz do Oeste, performed in February 2004, which fixed the tariff adjustments to -1.54%, +0.33%, -2.36% and -1.48%, respectively. The tariff adjustments on this revision process aim to provide necessary revenue to support both operating costs and investment return. These tariff adjustment indexes, applied beginning on February 3, 2004, substitute the previously fixed adjustments of +0.47%, +3.76%, -1.43% and +0.83%, respectively, through the Homologating Resolution numbers 22, 14, 16 and 20 of February 2, 2004. The difference between the provisory tariff adjustments (of February 2, 2004) of 0.47%, 3.76%, -1.43% and 0.83% calculated on the electricity power supply's tariffs and the final adjustments (-1.54%, +0.33%, -2.36% and -1.48%, respectively) were financially compensated for the final consumers within the annual tariff adjustment starting on February 3, 2005 under the Homologating Resolution numbers 27, 33, 24 and 35 of January 31, 2005.

The Authoritative Resolution numbers 389, 390 and 388, of December 22, 2005, changed the contractual dates of the annual tariff adjustments from February 3 to May 10, 2006. Therefore, the electric power tariffs of the controlled companies Caiuá - Distribuição de Energia S.A., Empresa Elétrica Bragantina S.A. and Companhia Nacional de Energia Elétrica were restated to conclude on May 9, 2006, according to the Homologating Resolution numbers 027, 033, and 024 of January 31, 2005. They also included the period of tariff revision to be issued every four years, the next tariff revision being scheduled for May 10, 2008.

CELTINS:

ANEEL, under Homologating Resolution 144, of June 30, 2005, confirmed the result of the first periodic tariff revision for the company Celtins, which occurred in July 2004 and fixed a tariff adjustment of 30.53%. The tariff adjustment on this revision process aims to provide necessary revenue to support both operational costs and investment return. This definite adjustment, applied beginning on July 1st, 2004, substitutes the previous adjustment of 23.96% issued under the Homologating Resolution n° 164, of July 1st, 2004. The increase from the previous adjustment is a result of the non-validation of the remuneration's basis until that moment.

In order to reduce the impact of the adjustment on consumers' tariffs, as well as to comply with the reasonable tariff principle and economic-financial break-even point provided in the Concession Agreement, the revenue increase under Portion B, resulting from the tariff adjustment in accordance with art. 2 of the resolution mentioned above, will be applied in annual installments, as follows:

On July 4, 2004, the Celtins' electric power supply tariffs were adjusted by 13.45%, as a result of the analysis on the impact of the deferral of the difference between the tariff adjustment and the annual tariff adjustment to be issued on the next revision, including the concessionaires' payment ability.

In annual tariff adjustments to be set for the years 2005 to 2007, R\$ 25,156 will be added to the annual installments of Portion B. This amount will also be restated as per the annual adjustments.

The deferred amounts recorded until December 2006 were R\$ 39,053 and R\$ 29,706 in 2004.

CEMAT

ANEEL, under Settlement Resolution No. 70, issued on April 7, 2004, settled the result of the first periodic tariff revision for the company Cemat, which occurred in April 2003, and fixed a tariff adjustment of 29.48%. The tariff adjustment on this revision process aims to provide necessary revenue to support both operational costs and investment return. This definite adjustment, applied beginning in April 2003, substitutes the previous adjustment of 26.00% issued under Resolution No. 164 on April 7, 2003. The difference between the 26% temporary tariff adjustment, applied in April 2003 to supply tariffs, and the final adjustment of 29.48%, was financially offset for consumers in the annual tariff adjustment of April 7, 2004 through Approving Resolution No. 70, dated April 7, 2004.

CELPA

ANEEL, under Resolution No. 188, issued on August 5, 2004, settled the result of the first periodic tariff revision for the company Celpe, which occurred in April 2003, and fixed a tariff adjustment of 20.21%. The tariff adjustment on this revision process aims to provide necessary revenue to support both operational costs and investment return. This definite adjustment, applied beginning in July 2003, substitutes the previous adjustment of 27.05% issued under Settlement No. 388, on August 6, 2003.

The difference between the 27.05% temporary tariff adjustment, applied in August 2003 to supply tariffs, and the final adjustment of 20.21%, was financially offset for consumers in the annual tariff adjustment of August 5, 2004 through Approving Resolution No. 188, dated August 5, 2004.

39. RETIREMENT AND PENSION PLANS

REDE EMPRESAS DE ENERGIA ELÉTRICA S.A., Cia. de Energia Elétrica do Estado do Tocantins - Celtins, Cia. Força e Luz do Oeste, Cia. Nacional de Energia Elétrica, Elucid Partners S.A., Elucid Solutions Ltda., Empresa de Eletricidade Vale Paranapanema S.A., Empresa Elétrica Bragantina S.A., Caiuá Distribuição de Energia S.A., Rede Comercializadora de Energia S.A., Rede Power do Brasil S.A. and Empresa de Distribuição de Energia Vale Paranapanema S.A., their employees, ex-employees and respective beneficiaries, sponsor retirement and pension plans to supplement the benefits paid by the public Social Security system. These plans are administrated by Redeprev - Fundação Rede de Previdência, a non-profit, closed, private, supplementary pension plan entity, multi-sponsored and incorporated as a foundation with administrative and financial autonomy.

The abovementioned companies are joint sponsors of Redeprev, and keep, through that institution, three pension plans:

- a. Elétricas BD-I Benefit Plan: structured as a Defined Benefit plan sponsored by active participants, sponsored participants, and the sponsors. This plan has been closed to new participants since December 31, 1998.
- b. Elétricas-R Benefit Plan: issued on January 1st, 1999, supplements retirement pension by disability compensation, sickness benefit, and death related pension and death savings. This plan has been structured as a Defined Benefit and the contributions are made exclusively by the sponsoring companies.
- c. Elétricas-OP Benefit Plan: issued on January 1st, 1999, it offers a monthly lifetime pension after a deferral period. During the deferral period, the plan was structured with defined contributions and the monthly benefit payments are linked to the participant's accumulated contributions. The monthly lifetime benefit amount is adjusted once a year, and in this phase is considered a defined benefit. The plan is funded by active participants (90%) and the companies (10%).

Financial situation of the benefit plans - actuarial evaluation November 30, 2006:

- a. Number of participants/beneficiaries:

	<u>ElétricasBD-I</u>	<u>Elétricas-R</u>	<u>Elétricas-OP</u>
Number of participants	62	2.111	2.111
Number of beneficiaries	246	7	26
Number of pensioners (families)	98	5	-
	<u>406</u>	<u>2.123</u>	<u>2.137</u>

- b. Defined contribution plan - Elétricas-OP Benefit Plan:

As of November 30, 2006, the balance of accumulated benefits concerning the defined contribution plan was R\$ 62,018 (R\$ 51,039 in 2005 and R\$ 43,796 in 2004).

The balance of accumulated benefits corresponds to the fund formed by the participants' individual contributions and the sponsors' contributions, plus respective yielding. The contributions are determined annually based on the financing plan of Elétricas - OP Plan.

- c. Defined Benefit Plan - Elétricas BD-I and Elétricas-R Plans

CVM Decision No. 371/00:

Based on an actuarial evaluation prepared by the Company's independent actuaries, on November 30, 2004, the actuarial liabilities of the Company's defined benefit plans as per the criteria established by CVM Decision No. 371/000, were as follows:

Actuarial assumptions:

The main actuarial assumptions used to define actuarial liabilities as of November 30, 2006 are the following:

	Rate	
	Real	Nominal
Discount rate	6.00% p.a.	8.76% p.a.
Expected yielding rate on assets (investments) of the plan	6.00% p.a.	8.76% p.a.
Future salary growth rate	2.00% p.a.	4.65% p.a.
Benefit adjustment rate	0.00% p.a.	0.00% p.a.
Expected inflation rate	0.00% p.a.	2.60% p.a.
Capacity factor (of salaries and benefits)	0.98	0.98
Life expectancy table	IBGE 2005	

Amounts recognized in the balance sheet:

	2006			2005	2004	
	Plan Eléctricas BD- I	Plan Eléctricas R	Plan Eléctricas OP	Total	Total	Total
Present value of actuarial obligations						
Defined benefit	45,739	4,297	10,593	60,629	53,198	48,180
Defined contribution	-	-	62,018	62,018	51,039	43,796
	<u>45,739</u>	<u>4,297</u>	<u>72,611</u>	<u>122,647</u>	<u>104,237</u>	<u>91,976</u>
Fair value of assets						
Defined benefit	49,859	8,700	14,637	73,196	61,762	55,846
Defined contribution	-	-	62,018	62,018	54,488	46,522
	<u>49,859</u>	<u>8,700</u>	<u>76,655</u>	<u>135,214</u>	<u>116,250</u>	<u>102,368</u>
Unsecured actuarial obligations (assets not accounted for)	(4,120)	(4,403)	(4,044)	(12,567)	(12,013)	(10,392)

Account reconciliation - Consolidated Liabilities:

	Decision CVM371	Debt statement (*)	Total
Balance as of Dec. 31, 2004	17,435	56,447	73,882
Expense for the period	(1,113)	6,399	5,286
Debt installment	-	(6,395)	(6,395)
Balance as of Dec. 31, 2005	16,322	56,451	72,773
Additions		2,500	2,500
Expense for the period	(601)	5,038	4,437
Contributions/Debt payments	-	(12,394)	(12,394)
Balance as of Dec. 31, 2006	15,721	51,595	67,316

Debt Statement (*):

Controlled Companies

- Accounts payable of the controlled company Celpa to Redeprev

On July 7, 1996 a Private Debt Assumption Agreement was signed, consolidating debts in the amount of R\$ 12,727 on that date. The amount is being amortized in 180 monthly installments, monetarily restated based on the INPC - National Consumer Price Index, plus interest of 0.5% per month and final maturity on June 30, 2011. The unamortized balance as of December 31, 2006, amounting to R\$ 11,291 (R\$ 12,777 in 2005 and R\$ 13,976 in 2004), is recorded in current liabilities (R\$ 2,440) and in long-term liabilities (R\$ 8,851).

- Accounts payable of the controlled company Cemat to Redeprev

On January 29, 2003 an agreement for debt payment in installments regarding the mathematic reserve in the amount of R\$ 23,240 and the technical deficit in the amount of R\$11,077 was entered. The agreement referring to the mathematic reserve will be amortized in 132 monthly and successive installments, the last one due on December 31, 2013, with monetary restatements based on the INPC - National Consumer Price Index plus 6% interest per year. The technical deficit will be amortized in 60 monthly and successive installments, the last one due on December 31, 2007, with monetary restatements based on IGPM - General Price Index Market plus 10% interest per year.

On July 18, 2006 a private amortization contract of actuarial deficit was entered into in the amount of R\$ 2,500, from which R\$ 1,142 refers to full coverage of the deficit found in the benefit plan, and R\$ 1,358 used to set up a fund for coverage of risk fluctuations. Such amount will be paid in 60 (sixty) monthly and successive installments starting on July 30, 2006 plus 6% of interest p.a + INPC.

The balance of agreements as of December 31, 2006 amounts to R\$ 40,304, comprising R\$ 12,436 in current liabilities ("Others") and R\$ 27,868 (R\$43,674, R\$ 8,994 and R\$ 34,680 in 2005, respectively) in non-current liabilities, in the account "Post-retirement Benefits."

d. Contributions made during the year

During the financial year ended December 31, 2006, the contributions destined to Redeprev amounted to R\$ 3 (R\$ 149 in 2005 and R\$ 425 in 2004) in the Company and R\$ 5,304 (R\$ 3,162 in 2005 and R\$ 9.230 in 2004) in consolidated, recorded as personnel expenses.

e. Other information

The controlled companies Celpa and Cemat also sponsor Redeprev's pension plans. These are adequately disclosed in the notes to the respective financial statement.

The Company and its subsidiaries companies are responsible for the full coverage of any deficit incurred by pension plans characterized as a defined benefit one.

40. Extraordinary Tax Debt Installment Payment Program – PAEX

In September 2006, the Company and its subsidiaries joined the Extraordinary Tax Debt Installment Payment Program - PAEX, established by Provisional Measure No. 303 of June 29, 2006. It rules the payment of legal entities' debts to the Federal Revenue Service (SRF), the National Treasury Attorney General (PGFN) and the National Institute of Social Security (INSS) in 130 monthly and successive installments (SRF/PGFN), with debts due by February 28, 2003 incurring TJLP and in 120 monthly and successive installments (IRPJ, CSLL, COFINS, PIS, CPMF, INSS and FINE), with debts due between March 1, 2003 and December 31, 2005 incurring SELIC whether or not assessed, whether or not constituting Federal Government or INSS Enforceable Debt, even if challenged in court in an action filed by defendant, or with payment being claimed in court, including debts that have been included in tax debt installment payment schemes before and not totally settled, although cancelled for lack of payment. The Company's options were validated with the payment of the first installment, and while SRF does not provide the consolidated amount of tax debt, the Company and its subsidiaries must pay the minimum monthly portion established for each installment.

- a. The debt consolidated in 130 monthly installments, in accordance with article 1 of Provisional Measure No. 303 of June 29, 2006, is being paid since September 2006. The portions of consolidated debt paid in the year ended December 31, 2006 amount to R\$ 8 (principal of R\$ 8), Company and R\$ 5,301 (principal of R\$ 5,243 and charges of R\$ 58), Consolidated.

The debit balance includes calculated interest equivalent to the variation of TJLP - Long Term Interest Rate.

The total PAEX amount in 130 months has the following composition:

Taxes	Company 2006			Consolidated 2006		
	Principal	Charges	Total	Principal	Charges	Total
PIS	3,011	52	3,063	40,109	686	40,795
COFINS	6,392	109	6,501	115,171	1,969	117,140
IRPJ	5,161	88	5,249	30,539	522	31,061
CSLL	1,882	32	1,914	13,093	225	13,318
CPMF			-	14,707	251	14,958
PGFN			-	75	1	76
INSS			-	8,375	148	8,523
Total	<u>16,446</u>	<u>281</u>	<u>16,727</u>	<u>222,069</u>	<u>3,802</u>	<u>225,871</u>

- b. The debt consolidated in 120 monthly installments, in accordance with article 8 of Provisional Measure No. 303, of June 29, 2006, is being paid since September 2006. The installments of consolidated debt paid in the year ended December 31, 2006 amount to R\$ 22,411 (principal of R\$ 18,597 and charges of R\$ 3,814), Consolidated.

The debit balance includes interest corresponding to the variation of SELIC.

The total PAEX amount in 120 months has the following composition:

Taxes	Company 2006			Consolidated 2006		
	Principal	Charges	Total	Principal	Charges	Total
PIS	1,747	55	1,802	89,046	2,789	91,835
COFINS	19,813	628	20,441	403,900	12,656	416,556
IRPJ	-	-	-	99,092	3,100	102,192
CSLL	-	-	-	33,490	1,049	34,539
CPMF	-	-	-	16,835	524	17,359
Fine	(8)	-	(8)	19,044	606	19,650
PGFN	-	-	-	213,002	6,711	219,713
INSS	-	-	-	6,928	219	7,147
Subtotal	<u>21,552</u>	<u>683</u>	<u>22,235</u>	<u>881,337</u>	<u>27,654</u>	<u>908,991</u>
Vertical divestiture	(21,552)	(683)	(22,235)	(21,552)	(683)	(22,235)
Total	<u>-</u>	<u>-</u>	<u>-</u>	<u>859,785</u>	<u>26,971</u>	<u>886,756</u>

41. LEASING

The main leasing agreements with financial leasing characteristics are as follows:

Agreement description	Aircraft Raytheon Corporation	Aircraft
Date	Aug. 1999	Oct. 2002
Period	10 years	10 years
Economic useful life	5 years	5 years
Currency	US\$	US\$
Present value	US\$ 2,730	US\$ 3,119 thousand
	in 40 quarter installments of US\$58 thousand, the first being in April 2000 and the last in January 2010.	in 40 quarter installments of US\$ 66 thousand, the first in December 2002, and the last in September 2012
Amortization		Quarterly Libor
Interest	Libor plus 2.5% p.a.	
Buy option value	US\$ 409	US\$ 468 thousand
Residual value anticipated	R\$ 1,130	US\$ 513 thousand
Installments during the financial year	R\$ 714	R\$ 985
Agreement description	Insured item	
	Aircraft Cessna	
Date	Sep. 1998	
Period	10 years	
Economic useful life	5 years	
Currency	US\$	
Present value	US\$ 15,974 thousand	
	in 40 quarter installments of US\$ 518 thousand, the first in March 1999, and the last in November 2008	
Amortization		
Interest	Libor	
Buy option value	US\$ 2,235 thousand	
Residual value anticipated	R\$ 6,416	
Installments during the financial year	R\$ 4,437	
Agreement description	Aircraft Raytheon Corporation	
Date	Nov. 2003	
Period	10 years	
Economic useful life	5 years	
Currency	US\$	
Present value	R\$ 9,353	
	in 40 quarter installments of US\$ 62, the first being on Feb. 25, 2004 and the last on Nov. 25, 2013	
Amortization		
Interest	Libor plus 4.67 % p.a.	
Buy option value	R\$ 1,283	
Residual value anticipated	R\$ 1,041	
Installments during the financial year	R\$ 983	

The installments are recorded in the income statement in the account "leasing and rent expenses."

* Unaudited information

42. INSURANCE (CONTROLLED COMPANIES)

The controlled companies have insurance policies considered sufficient to cover potential losses in the form of damages to its assets as well as indemnities to third parties if they are held liable for unintended material and physical damages resulting from their operations, considering the nature of its activities. The main insurance coverage is as follows:

Risk

Fire, lightning bolt, explosion and electric damages
Fire, robbery, collision, property/personal damages
Airplane - Civil Responsibility (RETA)
Airplane - Aircraft hull / LUC
Fire - Residential
Material losses and Personal to Third Parties
Group life - Death and personal accidents

Risks

Operational risks: in these insurance policies, substations and power plants are prominently described, with all insured locations and the respective insurance amounts and maximum indemnity limits.

The policies provide insurance coverage, without limitation, for risks such as fire, lightning strike, and explosions of any kind, electrical damage, miscellaneous risks, electronic devices and computer hardware, machine failure and natural disaster risks.

General Third Party Liability: coverage of Material and Physical Damage to third parties caused by commercial and industrial operations.

Transports: Coverage of repairs and/or replacement of assets owned by the Company in case of disasters during surface, air, and water transportation.

Aeronautic - Third Party Liability ("RETA"): this covers the aircraft and material and/or physical damage to third parties.

Aeronautic Aircraft Hull/LUC: this insurance is denominated in US dollars. The amount presented was converted to Reais at the December 31, 2006 exchange rate (R\$ 2.1380).

Cars: this covers car crashes, fire and theft, and material and physical damage to third parties caused by car accidents.

Group Life Insurance: this covers employee deaths (whatever the cause); permanent, total, or partial disability caused by accident; and total disability caused by illness.

43. FINANCIAL INSTRUMENTS

The Company and its subsidiaries deal in financial instruments fully accounted for in the balance sheet accounts. Transactions are conducted by financial areas in accordance with the strategy approved by management. The Company's and subsidiaries' management estimate that the risks are minimum, as there is no concentration and transactions are conducted with banks of recognized financial soundness, within approved limits.

a. Derivatives

The purpose of the derivative instruments Centrais Elétricas Matogrossenses S.A. – CEMAT and Centrais Elétricas do Pará S.A. – CELPA, use is to protect the Company's operations against exchange rate variation risks and not speculation.

The principal amounts in derivative operations are not recorded in the balance sheet, as they are related to operations that do not require full transaction information, but rather only gains earned and losses suffered.

On December 31, 2006, subsidiaries CEMAT and CELPA had swap agreements with financial institutions to face possible fluctuations of the local currency against the US dollar, amounting to US\$ 100,000, (R\$ 223,978) original value, corresponding to the funds raised through "Notes Units."

The net recognized result of these transactions accumulated losses of R\$ 14,648 from February to December 2006. From that amount, R\$ 6,698 with Banco Merrill Lynch de Investimentos S.A., which opted for the IGPM index plus 4.20% p.a. and R\$ 7,950 with Unibanco. – União de Bancos Brasileiros S.A., which opted for IGPM plus 5.70% p.a., with maturities on February 12, 2010, February 11, 2011 and February 13, 2012, respectively.

On July 25, 2006, CEMAT entered into a loan agreement with Inter-American Development Bank, obtaining US\$ 79,500 as part of the funds approved from a total amount of US 114,500. From the total sum released, US\$ 40,000 comes from own resources of IDB (called "A Loan" or Part A) and US\$ 39,500 comes from a syndicate of banks (*club deal*) composed of Banco Société Generale and Banco Itaú Europa. Part A of the financing will have a total term of 9 (nine) years for settlement, with a 3 (three) year grace period plus 6 (six) years for amortization of the principal amount. Part B will have a total term of 6 (six) years for settlement, with 3 (three) years of grace period plus 6 (six) years for amortization. Amortization of principal and charges will be quarterly performed. The cost of Part A corresponds to Libor plus *spread* of 4.25% p.a. and the cost of Part B corresponds to Libor plus *spread* of 3.875% p.a. The principal amount of the transaction was hedged against exchange rate fluctuations (Swap) at rates ranging between IGPM plus *spread* of 4.23% p.a. and IGPM plus *spread* of 5.39% p.a.

The net recognized result of these transactions accumulated losses of R\$ 12,766 from July to December 2006. From that amount, R\$ 2,582 with Banco Société Generale, which opted for the IGPM index plus 4.77%. and R\$ 4,798 with Banco Itaú, which opted for IGPM plus 4.23% to 5.39%, R\$ 4,761 with Banco J.P.Morgan, which opted for IGPM plus 4.49% p.a. and R\$ 625 with Unibanco, which opted for IGPM plus 4.60%.

Net unrealized income/loss on derivative transactions is accounted for on the accrual basis, which may generate differences when compared to the estimated market value of such agreements. The difference is due to the fact that the market value comprises the discount to present value of future gains or losses to be incurred with transactions, in accordance with the market's expectation when the market value is determined.

The Company's management, estimates that the market values of the fund raising through "Notes Units," and "IDB," recorded in balance sheet accounts, do not present significant differences in relation to those recognized in the financial statements.

As of December 31, 2006, CELPA had swap agreements with financial institutions to face possible fluctuations in local currency in relation to the US dollar, amounting to US\$ 50,000, (R\$ 111,989) original value, corresponding to the funds raised through "Notes Units."

The net recognized result of these transactions accumulated losses of R\$ 7,324 from February to December 2006. From that amount, R\$ 3,349 with Banco Merrill Lynch de Investimentos S.A., which opted for the IGPM index plus 4.20% p.a. and R\$ 3,975 with Unibanco – União de Bancos Brasileiros S.A., which opted for IGPM plus 5.70% p.a., with maturities on February 12, 2010, February 11, 2011 and February 13, 2012 respectively.

On July 25, 2006, CELPA entered into a loan agreement with Inter-American Development Bank - IDB, obtaining US\$ 100,000 as part of the funds approved from a total amount of US 135,000. From the sum released, US\$ 40,000 comes from own resources of IDB (called "A Loan" or Part A) and US\$ 60,000 comes from a syndicate of banks (*club deal*) composed of Banco Societé Generale and Banco Itaú Europa. Part A of the financing will have a total term of 9 (nine) years for settlement, with a 3 (three) year grace period plus 6 (six) years for amortization of the principal amount. Part B will have a total term of 6 (six) years for settlement, with 3 (three) years of grace period plus 3 (three) years for amortization. Amortization, both of principal and charges will be quarterly. The cost of Part A corresponds to Libor plus *spread* of 4.25% p.a. and the cost of Part B corresponds to Libor plus *spread* of 3.875% p.a. The principal amount of the transaction was hedged against exchange rate fluctuations (Swap) at rates ranging between IGPM plus *spread* of 4.23% p.a. and IGPM plus *spread* of 5.50% p.a.

The net recognized result of these transactions accumulated losses of R\$ 15,935 from July to December 2006. From that amount, R\$ 3,922 with Banco Societé Generale, which opted for the IGPM index plus 4.88% and R\$ 7,170 with Banco Itaú, which opted for IGPM plus 4.23% to 5.50%, and R\$ 4,843 with Unibanco, which opted for IGPM plus 4.60%.

Net unrealized income/loss on derivative transactions is accounted for on the accrual basis, which may generate differences when compared to the estimated market value of such instruments. The difference is due to the fact that the market value comprises the discount to present value of future gains or losses to be incurred with transactions, in accordance with the market's expectation when the market value is determined.

The Company's management estimates that the market values of the fund raising through "Notes Units," and "IDB," recorded in balance sheet accounts, do not present significant differences in relation to those recognized in the financial statements.

Credit risk

The Company and its controlled companies are required by the regulations of the electric sector and the concession contracts to supply electric power to all customers located in the concession area. In accordance with sector regulations, the Company is entitled to interrupt the supply of electric power to consumers that do not pay their bills.

Exchange rate risk

The indebtedness and the results of the Company's and its subsidiaries' operations are significantly affected by the exchange rate risk (US dollar). As of December 31, 2006, the total balance of loans amounted to R\$ 2,782,656, from which R\$ 756,554, relates to financial funding in foreign currency in the controlled companies CEMAT and CELPA.

Price risk

Annually, electric power distribution companies prepare the requests for electric power tariff adjustments based on the variation of non-manageable costs (named Portion A) and on the IGPM variation for manageable costs (named Portion B). These requests are reviewed and homologated by ANEEL. The tariffs, in accordance with the concession contract, should ensure a financial-economic balance to the Company and its controlled companies.

Market risk

The market risk of the Company and its controlled companies must be analyzed in the context of changes in the Brazilian electric sector model in which they operate.

44. SIGNIFICANT FACTS

- a. On October 2, 2006 the Official Gazette published Authoritative Resolution No. 701 of Sep. 27, 2006 passed by the Brazilian Electric Power Agency - ANEEL, approving the transfer of all shares of the electricity generating concessionaires owned by the Company, its controlling company and subsidiaries Rede Power do Brasil S.A. and Tocantins Energia S.A. to Enel Brasil Participações Ltda.

The formalization of the procedure happened on October 6, 2006 with the receipt of R\$463,636, producing an effect on the consolidated income/loss of approximately R\$103,013, net of taxes.

- b. Impact of REGULATORY RESOLUTION ANEEL 234 as of October 31, 2006.

Through Resolution No. 234 of October 31, 2006, ANEEL established the general concepts, applicable methodology, and initial procedures to perform the second periodic tariff revision cycle of public electricity distribution concessionaires.

The methodology applied in the first tariff revision cycle, concerning the valuation of the assets and the setting up of a Reference Company for the Operating Costs was maintained.

We present below some considerations about the main items:

Operating costs:

The methodology adopted to determine operating costs will be maintained and the Reference Company Model used, based on the preparation of processes and activities that should be accomplished by an electricity distribution company to ensure that the service is rendered at a minimum quality level.

It comprises the measurement of human resources (management, operations and maintenance), materials, and services: chattels and realty.

It also establishes the commercial processes and activities, as well as electricity system operation and maintenance procedures and activities.

For this second cycle, the calculation process of Operating Cost should be transparent, including the calculation model ANEEL makes available and the Use Handbook of the Reference Company.

Structure and Cost of Equity and Third-Party Capital:

It maintains the Optimized Capital Structure and the CAPM (Capital Assets Pricing Model) method to calculate equity capital cost. And for the cost of third party capital, the risk premium required to lend funds to a distribution concessionaire in Brazil was added.

At last, the weighed average cost of capital is calculated.

Several historical series of the model were updated to measure the risk premium. Through Resolution No. 246 of December 21, 2006, ANEEL established the percentage of Weighed Average Cost of Capital for this second tariff revision cycle as being 15.12% gross and 9.98% net on the Asset Remuneration Basis.

Asset Remuneration Basis:

The replacement cost method remains valid to value fixed assets in service considering the new asset value as the basis for determination of its market value.

The remuneration basis approved in the first tariff revision cycle should be "armored", that is, the write-offs should be deducted from it and it should be adjusted by applying IGP-M, in addition to considering the depreciation for the period.

Additions between the dates of the first and second tariff revision cycles, provided that they are in operation, are valued as per the methodology defined by Resolution No. 234/06.

About the additions, they are pre-priced, in accordance with a "Bank of Reference Prices," established by ANEEL, according to the average prices of the region.

In relation to the previous methodology, there was a change in the recognition of depreciation of assets acquired with funds from the Special Obligations, since they will no longer be computed in portion B of the Required Revenue of the Concessionaire.

The proposed criterion also changes the accounting aspect, to allow the Special Obligations to be amortized at the same depreciation rates, using an average rate, starting from the tariff revision.

Only after the tariff revision starting in April 2007 for some concessionaires will we be able to analyze which criterion will be actually adopted by ANEEL in the application of that change.

45. SUBSEQUENT EVENTS

ANEEL, through Authoritative Resolution No. 427 of February 1, 2007 approved the result of the annual tariff adjustment in the subsidiary Companhia Força e Luz do Oeste, setting the tariff increase at 1.89%, of which 1.50% refers to the annual tariff adjustment and 0.39% refers to financial components external to the annual adjustment.

* * *

ANNEX A—SUMMARY OF CERTAIN DIFFERENCES BETWEEN U.S. GAAP AND BRAZILIAN GAAP

Our company's accounting policies comply with, and the financial statements are prepared in accordance with, Brazilian GAAP, which encompass the accounting practices emanating from the Brazilian Corporation Law, and CVM and ANEEL regulations. A summary of our significant accounting policies that differ significantly from U.S. GAAP is set forth below. This summary relating to electric utilities does not purport to be complete and is subject to and qualified in its entirety by reference to the respective pronouncements of the Brazilian and United States accounting professions. The effects of these differences on our financial statements have not been quantified.

Introduction – Adjustments for the Effects of Inflation

Until December 31, 1995, publicly traded companies in Brazil were required to prepare financial statements under two methods: (1) the corporate law method (which complies with the accounting practices emanating from the Brazilian Corporation Law), valid for all legal purposes; and (2) the constant currency method (which complies with Brazilian GAAP) prepared as price-level-adjusted financial statements. As a consequence of the low levels of inflation in the Brazilian economy, monetary correction was abolished in the corporate law method by Law No. 9,249, of December 26, 1995, which amended Law No. 6,404/76. In addition, pursuant to CVM instruction No. 248 of March 29, 1996, the constant currency method is no longer required to be used by publicly traded companies registered with CVM, which companies, as of March 1996, are required to prepare their financial statements in accordance with Law No. 6,404/76, as amended by Law No. 9,249/95. However, companies are still allowed to present financial statements prepared under the constant currency method, as supplemental information to the primary financial statements.

The corporate law method, for all periods through December 31, 1995, provided for a simplified method of accounting for the effects of inflation that consisted of restating permanent assets (property, plant and equipment, investments and deferred charges) and shareholders' equity accounts using the indices mandated by the Brazilian government. The net effect represented the inflationary gain or loss was credited or charged to income in a single account in the income statement. Under the constant currency method, the amounts in the financial statements were expressed in constant purchasing power at the most recent balance sheet date. This method required that all transactions and balances recorded in a company's statutory accounts under the corporate law method be updated to reflect the changes in a selected index from the date they occurred or were generated to the most recent balance sheet date. Accordingly, all relevant non-monetary assets and liabilities, shareholders' equity accounts, and all components of the statements of income, changes in shareholders' equity and changes in financial position were updated to reflect the changes in the inflation indices to the most recent balance sheet date.

The inflation accounting adjustments required by both the corporate law method and the constant currency method have no equivalent in the financial statements prepared by companies domiciled in the United States or in financial statements issued for circulation in the United States of companies domiciled in non-inflationary countries. However, the constant currency method under Brazilian GAAP is similar to an option under U.S. GAAP for non-U.S. companies reporting in local currency in countries with high inflation, under Accounting Principles Statement No. 3, "Financial Statements Restated for General Price-Level Changes." Since January 1, 1998, Brazil is no longer considered highly inflationary under U.S. GAAP.

Until December 31, 1995, we used indices established by the government to restate balances and transactions in the preparation of our financial statements. Such indices do not necessarily represent changes in general price levels, as would be required under U.S. GAAP. The difference not only affects the basic values of property, plant and equipment and shareholders' equity, but also all other financial statement items so restated.

Accounting Practices Specifically Applicable to Electric Utilities

As noted below, Brazilian GAAP provides for a form of regulatory accounting. Financial statements prepared under a regulatory basis of accounting are fundamentally different to financial statements prepared otherwise; therefore, readers of financial statements prepared under Brazilian GAAP, including a form of regulatory accounting, are forewarned that such financial statements are not comparable to U.S. GAAP financial statements.

Accounting for Rate Regulation

Electric utilities in the United States that meet specified criteria within a rate-making scheme that allows recovery of specific costs are permitted to account for their operations and prepare their financial statements on the basis of the provisions of the Statement on Financial Accounting Standards ("SFAS") No. 71, "Accounting for the Effects of Certain

Types of Regulation.” SFAS No. 71 allows a company to reflect transactions in its financial statements based on the rate actions of the regulatory body.

Public concessionaires of electric utility services in Brazil are subject to regulations established by ANEEL, the successor to the National Department of Water and Energy (*Departamento Nacional de Águas e Energia Elétrica*), which is related to the MME.

The electricity sector in Brazil is regulated by the Brazilian government, acting through the MME, which has exclusive authority over the electricity sector through regulatory powers assigned to it. Regulatory policy for the sector is implemented by ANEEL. ANEEL is responsible for, among other things: (1) administering concessions for electric energy generation, transmission and distribution, including the approval of electricity tariffs; (2) defining the criteria and methodology for the determination of the transmission tariffs; (3) enacting regulations for the electric energy industry; and (4) supervising and performing financial examinations of the companies with concession agreements.

Despite the existence of comprehensive regulation, the rates of Brazilian utilities have in the past not been set at levels that allowed them to recover specific costs. However, as a result of various actions taken by the Brazilian government and ANEEL in 2001, the public concessionaires of electric utility services are now subject to the provisions of SFAS No. 71 because the rate-setting structure in Brazil is now designed to recover allowable costs. Accordingly, incurred costs are capitalized as deferred regulatory assets when there is a probable expectation that future revenue equal to the costs incurred will be billed and collected as a direct result of the inclusion of the costs in an increased tariff set by the regulator. The deferred regulatory asset is eliminated when the related costs are collected through billings to customers at increased rates. ANEEL performs a rate review on an annual basis. If ANEEL excludes all or part of a cost from recovery, that portion of the deferred regulatory asset is impaired and is accordingly reduced to the extent of the excluded cost. Such costs are charged to results of continuing operations.

During 2001, the electricity markets in significant portions of Brazil experienced rationing, or reduced availability of electricity to customers, due to low rainfall, reduced reservoir levels and Brazil’s significant dependence on electricity generated from hydrological resources. These factors resulted in lower sales for companies in the rationing region. In December 2001, such companies reached an industry-wide agreement with the Brazilian government that provided resolution to all rationing related issues as well as to certain other electricity tariff related issues. The tariff increase imposed by this agreement will remain in effect for 6 years. Under Brazilian GAAP, revenues and accounts receivable arising under this agreement were fully recorded when the agreement was reached. Under U.S. GAAP, revenues and accounts receivable would be recorded considering the 24-month period for recoverability established in the Emerging Issues Task Force (“EITF”) No. 92-7, “Accounting by Rate Regulated Utilities for the Effects of Certain Alternative Revenue Programs.”

Capitalized Interest

Under Brazilian GAAP, Brazilian electric utilities capitalize interest costs, monetary variation due to indexation and exchange gains and losses on borrowed funds, and may also capitalize imputed interest attributable to shareholders’ equity applied to construction work in progress.

Under U.S. GAAP, in accordance with the provisions of SFAS No. 34, “Capitalization of Interest Costs,” interest incurred on borrowings is capitalized to the extent that borrowings do not exceed the cost of construction-in-progress. The credit is a reduction of interest expense. The amount of interest capitalized excludes the foreign exchange gains and losses on foreign currency borrowings. SFAS No. 34 specifically prescribes that capitalization should cease when substantially all the activities related to the acquisition of the asset are suspended and until such activities are resumed.

Indirect and Indemnification Costs

Under Brazilian GAAP, Brazilian electric utilities are allowed to capitalize extraordinary indemnification costs incurred in the course of building new plants, such as contractual penalties on the delays in construction or contractors’ claims. They are also allowed to capitalize indirect costs, such as administrative costs, as part of the cost of property, plant and equipment.

Under U.S. GAAP, such costs would not be capitalized if they are not deemed to add value to the facility.

General Accounting Practices

Pension and Other Benefits

Under Brazilian GAAP, based on pronouncements issued by IBRACON and the CVM, companies must apply substantially the same accounting practices as determined by SFAS No. 87, “Employers’ Accounting for Pensions,” and of SFAS No. 106, “Employers’ Accounting for Post-retirement Benefits other than Pensions.” Brazilian companies had the option to implement CVM Deliberation No. 371/2000 before or after December 31, 2001. If implemented as of December 31, 2001, the impact of CVM Deliberation No. 371/2000 was recognized against retained earnings; if implemented after such date, the impact was recognized in income over the shorter of five years or the estimated remaining service life of the employees covered by the plan.

Under U.S. GAAP, employee pension costs are recognized in accordance with SFAS No. 87, “Employers’ Accounting for Pensions.” SFAS No. 87 requires the use of an actuarial method for determining defined benefit pension costs and provides for the deferral of actuarial gains and losses (in excess of a specific corridor) that result from changes in assumptions or actual experience differing from that assumed. SFAS No. 87 also provides for the prospective amortization of costs related to changes in the benefit plan, as well as the obligation resulting from transition, and requires disclosure of the components of periodic pension costs and the funded status of pension plans.

SFAS No. 106 applies to all post-retirement benefits related to life insurance provided outside a pension plan or to other post-retirement health care and welfare benefits expected to be provided by an employer to current and former employees. SFAS No. 106 is similar to SFAS No. 87 in that the cost of a post-retirement benefits plan should be recognized over the employees’ service periods and that actuarial assumptions are used to project the cost of health care benefits and the present value thereof. Under SFAS No. 106, a company is required to describe the plan, employee groups covered, type of benefits provided, funding policy, types of assets held, and any matter affecting comparability, among other disclosures.

SFAS No. 112, “Employers’ Accounting for Post-Employment Benefits,” establishes accounting standards for employers who provide benefits to former or inactive employees after employment but before retirement. Post-employment benefits include, but are not limited to, salary continuation, severance benefits, disability, and counseling and continuation of benefits such as health care benefits and life insurance coverage. SFAS No. 112 requires employers to recognize the obligation to provide post-employment benefits in accordance with SFAS No. 43, “Accounting for Compensated Absences,” if (1) the obligation is attributable to employees’ services already rendered, (2) employees’ rights to those benefits are accumulated or vested, (3) payment of the benefits is probable, and (4) the amount of the benefit can be reasonably estimated. If those four conditions are not met, the employer should account for post-employment benefits when it is probable that a liability has been incurred and the amount can be reasonably estimated in accordance with SFAS No. 5, “Accounting for Contingencies.”

In December 2003, the Financial Accounting Standards Board (“FASB”) issued SFAS No. 132, “Employers’ Disclosures About Pensions and Other Postretirement Benefits,” amending SFAS Nos. 87, 88 and 106, and a revision of SFAS No. 132 (SFAS 132(R)), requiring the following new disclosures regarding pension plans and postretirement benefits:

Plan Assets

- Information about major asset categories, including at a minimum, equity securities, debt securities, real estate, all other assets.
- A narrative description of investment policies, including target allocation, if used.
- A narrative description of the basis used to determine the expected long-term rate of return on assets assumption.
- If considered useful, disclosure of additional asset categories and additional information about specific assets within a category to permit understanding of market risks and rates of return.

Obligations

- Accumulated benefit obligation (for defined benefit pension plans).

- Expected future benefits to be paid for each of the next five years and in the aggregate for the five years thereafter. These amounts should be estimated using the same assumptions used to measure the company's year-end benefit obligation and include an estimate of future employee service.
- A best estimate of contributions expected to be paid to fund the plan for the next year. Amounts should be presented in the aggregate combining: (1) contributions required by funding regulations or laws; (2) discretionary contributions; and (3) noncash contributions.

Other

- Assumptions used to determine the benefit obligation and the net benefit cost, such as assumed discount rates, rates of compensation increase (for pay-related plans), and expected long-term rates of return on plan asset, shown in a tabular format.
- Measurement dates used to determine pension and other postretirement benefit measurements that make up at least the majority of the plan assets and benefit obligations.

The effective dates for these disclosure requirements varied depending on whether the plan is for a domestic or foreign public entity or for a non-public entity, as follows:

- Domestic plan of a public entity: Fiscal year ending after December 15, 2003
- Foreign plan of public entity: Fiscal year ending after June 15, 2004
- Plan of a non-public entity: Fiscal year ending after June 15, 2004

Earnings (Loss) per Share

Under Brazilian GAAP, disclosure of earnings (loss) per share is computed based on the number of shares outstanding at the end of the year.

Under U.S. GAAP, in accordance with SFAS No. 128, "Earnings per Share," the presentation of earnings (loss) per share is required for public companies, including (1) on the face of the income statement, earnings (loss) per share from continuing operations, and (2) either on the face of the income statement or in a footnote, earnings (loss) per share, and the per share effect of changes in accounting principles, discontinued operations and extraordinary items. Presentation of these items is required on a basic and diluted basis. Computations of basic per share data should be based on the weighted average number of common shares outstanding during the period, and computations of diluted per share data should be based on all dilutive potential common shares outstanding during the period.

In accordance with SFAS 128, earnings per share data must adjusted for all periods presented in the financial statement to reflect a new number of shares that will result from the stock split.

Revaluation of Property, Plant and Equipment

Under Brazilian GAAP, companies may opt to carry property, plant and equipment at cost, inflation indexed up to December 31, 1995, or at appraised values, in which case the revaluations must be performed a least every four years and should not result in an amount higher than the value expected to be recovered through future operations. The difference between the carrying amount and the appraised value of the assets would be recorded, if positive, as an increase of property, plant and equipment with counter entry directly in shareholders equity. Decreases in the appraised value, with respect to the carrying amount of certain assets, are set off with increases in other assets and the net difference, if positive, is recognized directly as an increase in equity. At the initial adoption of the revalued amount as the policy to account for property, plant and equipment if the result of the appraisal indicates that there is a net decrease in the appraised value of property, plant and equipment as compared with the carrying amount, Deliberation 183/85 determines that such decrease is not recognized unless the carrying amount of all property, plant and equipment of a company considered as a whole is not recoverable through future operations. When property, plant and equipment is valued based on appraisal values such assessment should be made considering the operations of a company as a whole and not the recoverable value of individual assets or group of assets. If it is determined that the carrying amount of property, plant and equipment as a whole is not recoverable through future operations, a non-operational expense should be recognized.

The revaluation of land not for sale is not subject to deferred income tax and gains and losses from the sale or disposal of assets are recorded as non-operating expenses as further described under "Impairment of Long-Lived Assets." Amortization of the asset revaluation increments are charged to income and an offsetting portion is removed from the revaluation reserve in stockholders' equity and transferred to retained earnings as the related assets are depreciated or upon their disposal.

Under U.S. GAAP, property, plant and equipment are reported as their historical cost less accumulated depreciation. Revaluations as described above are not permitted, except in the case of business combinations or start-up accounting after a corporate reorganization.

Discounting

Under Brazilian GAAP, non-interest-bearing long-term receivables and liabilities are not discounted to their present value as of the balance sheet date. From 1995, the CVM requires discounting of certain long-term items only for listed companies.

U.S. GAAP requires such discounting to recognize the effects of interest income or expenses for non-interest bearing assets and liabilities or for assets and liabilities that, although they bear interest, present an interest rate significantly different from prevailing market interest rates.

Income Taxes

Under Brazilian GAAP, companies may report deferred tax liabilities net of deferred tax assets. The deferred income tax asset represents the probable estimated amount to be recovered. Pursuant to CVM Resolution 273/98 and CVM Instruction 371/02, management is required to present its best estimate of expected realization of tax assets arising from income tax and social contribution tax loss carryforwards based on a discounted cash flow model approved by the company's board of directors, and recognition of deferred tax assets is limited to the amounts expected to be realized in a ten-year period. CVM Instruction 371 introduced more stringent criteria for the recognition of deferred tax assets than those previously established by CVM Deliberation 273. CVM Instruction 371 does not allow companies to recognize deferred tax assets for amounts higher than the amounts recognized following CVM Deliberation 273 until all conditions established in CVM Instruction 371 are met.

Under U.S. GAAP, the liability method is used to calculate the income tax provision, as specified in SFAS No. 109, "Accounting for Income Taxes." Under the liability method, deferred tax assets or liabilities are recognized with a corresponding charge or credit to income (or in certain cases to other comprehensive income within stockholders' equity) for differences between the financial and tax basis of assets and liabilities to each year/period end. The deferred tax assets and liabilities are being measured using rates enacted by law. Net operating loss carry-forwards arising from tax losses are recognized as assets and valuation allowances are established to the extent it is not more likely than not such assets will be recovered. Under U.S. GAAP, a company would recognize a deferred tax benefit and a corresponding valuation allowance in the case it is more likely than not that these assets will not be realized.

FIN 48— *Accounting for Uncertainty in Income Taxes-An Interpretation of FASB Statement No. 109* prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure, and transition.

Statement of Cash Flows

Under Brazilian GAAP, presentation of a statement of cash flows is not required. Changes in working capital are presented in a statement of changes in financial position.

U.S. GAAP requires the presentation of a statement of cash flows describing a company's cash flows from operating, financing and investing activities.

Dividends and Interest Attributable to Stockholders' Equity

Under Brazilian GAAP, at each balance sheet date, the directors are required to propose a dividend distribution from earnings, subject to ratification by the shareholders' meeting, and accrue for this in the financial statements.

Under Brazilian GAAP, companies are permitted to distribute or capitalize an amount of interest, subject to certain limitations, calculated based on a government interest rate, on stockholders' equity. Such amounts are deductible for tax purposes and are presented as a deduction from stockholders' equity.

Under U.S. GAAP, since proposed dividends may be ratified or modified at the annual Shareholders' Meeting, such dividends would not be considered as declared at the balance sheet date and would therefore not be accrued. However, interim dividends paid or interest credited to shareholders as capital remuneration under Brazilian legislation would be considered as declared for U.S. GAAP purposes.

Impairment of Long-lived Assets

Under Brazilian GAAP, the carrying values of fixed assets are written down to realizable values when it is estimated that the depreciation charges on such carrying value would cause the company, within the context of the balance sheet as a whole, to realize net losses in future periods. Write-downs are taken in amounts necessary to eliminate such losses when operating income is insufficient within the context of the fixed asset group to recover the depreciation. Cash flow computations in order to determine potential asset impairment, although permitted, are not required.

Under U.S. GAAP, SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," establishes the basic provisions for (a) recognition/measurement of impairment of long-lived assets to be held and used, and (b) measurement of long-lived assets to be disposed of by sale. In accordance with this standard whenever events or changes in circumstances indicate that the carrying value of long-lived assets might not be recoverable, calculations of undiscounted cash flows expected to be derived from assets in service should be performed to determine whether impairment has occurred. In the event such undiscounted cash flows are not expected to be sufficient to recover the recorded value of the assets, such assets should be written down to their estimated fair values based on discounted cash flow analyses. SFAS No. 144 superseded the accounting and reporting provisions of APB Opinion No. 30 (APB No. 30), "Reporting the Results of Operations," for segments of a business to be disposed of, but retained APB No. 30's requirement to report discontinued operations separately from continuing operations, and extended that reporting to a component of an entity that either has been disposed of or is classified as held for sale.

Items Posted Directly to Shareholders' Equity Accounts

Under Brazilian GAAP, certain transactions are accounted for through shareholders' equity accounts. This method permits prior period adjustments to be charged or credited to retained earnings (deficit) to correct errors in previously issued financial statements and to recognize the effects of accounting changes.

Under U.S. GAAP, the cumulative effect of changes in accounting principles is generally disclosed as an adjustment to earnings in the year of the change, along with pro forma disclosure of the effects of such change on prior years' financial statements. The effects of changes in accounting estimates are generally reflected prospectively.

Under U.S. GAAP, prior period adjustments are effectively limited to correction of errors which are effected by adjusting current and prior periods' financial statements and appropriate footnote disclosure regarding the effects of the error on current and prior periods. However, for the purposes of U.S. GAAP, paragraph 29 of APB No. 20 allows the retroactive restatement of the financial statements to reflect the effects of a newly adopted accounting principle, in the case of an initial public offering, in order to provide better information to the potential investors. Under this paragraph all prior financial statements may be restated in the case of: (a) obtaining additional equity capital from investors; (b) effecting a business combination; or (c) registering securities.

Additionally, investments tax credits, approved by the Brazilian government for under-developed regions of Brazil or for specific projects, are available without additional cost upon the payment of taxes. Under Brazilian GAAP, such investments are recorded as an asset, with a corresponding credit to a reserve in shareholders' equity. Under U.S. GAAP, a credit would be made to income.

Investments in Debt and Equity Securities

Under Brazilian GAAP, generally marketable debt and equity securities are recorded at the lower of cost or market value and gains and losses are reflected in income.

Under U.S. GAAP, in accordance with SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities," for companies in industries not having specialized accounting practices, the accounting and reporting for

investments in equity securities that have readily determinable fair values and for all investments in debt securities is as follows:

- companies classify debt securities that the company has the positive intent and ability to hold to maturity as “held-to-maturity” securities and report them at amortized cost;
- companies classify debt and equity securities they hold principally for the purpose of selling them in the short term as “trading securities” and report them at fair market value, including unrealized gains and losses in income; and
- companies classify debt and equity securities that they have not classified either as “held-to-maturity” or “trading securities” as securities available-for-sale and report them at fair value, excluding unrealized gains and losses from earnings and reporting them in a separate component of shareholders’ equity until realized.

Financial Instruments and Concentration of Credit Risk

Under U.S. GAAP, the applicable accounting practice for financial instruments depends on management’s intention with respect to disposition and may require adjustments to their market or fair values. In addition, U.S. GAAP requires detailed disclosures relating to financial instruments not reflected on the balance sheet or relating to concentration of financial instruments with credit risk.

Under Brazilian GAAP, there are less detailed requirements regarding the disclosure of information relating to financial instruments not reflected on the balance sheet or relating to concentration of financial instruments with credit risk.

Derivative Financial Instruments

SFAS No. 133, “Accounting for Certain Derivative Instruments and Certain Hedging Activities” as amended and interpreted, requires that all derivative instruments should be recorded on the balance sheet at fair value. Changes in the fair value of derivatives should generally be recorded in earnings unless such derivative is designated as a part of a hedge transaction and meets the criteria for hedge designation. The ineffective portion of all hedges should be recorded in earnings.

SFAS No. 149, “Amendment of Statement 133 on Derivative Instruments and Hedging Activities,” amended and clarified accounting for derivative instruments, including certain derivative instruments embedded in other contracts, and hedging activities under SFAS No. 133. SFAS No. 149 clarified the circumstances under which a contract with an initial net investment meets the characteristics of a derivative instrument as discussed in SFAS No. 133. In addition, SFAS No. 149 clarified when a derivative contains a financing component that warrants special reporting in the Statement of Cash Flows. SFAS No. 149 amended certain other existing pronouncements, resulting in more consistent reporting of contracts that are derivatives in their entirety or that contain embedded derivatives that warrant separate accounting.

Under Brazilian GAAP, there is no such clearly designated set of defined accounting practices to address the valuation of derivative financial instruments, although the Central Bank has issued standards applicable to financial institutions, that are similar to the requirements under SFAS No. 133.

Reporting Comprehensive Income

Brazilian GAAP does not recognize the concept of comprehensive income.

SFAS No. 130, “Reporting Comprehensive Income,” requires the disclosure of comprehensive income. Comprehensive income is comprised of net income and “other comprehensive income” that includes charges or credits directly to equity that are not the result of transactions with owners. Examples of other comprehensive income items are cumulative translation adjustments under SFAS No. 52, unrealized gains and losses under SFAS No. 115, and minimum pension liabilities under SFAS No. 87.

Disclosures

Brazilian GAAP requires, in general, less information to be disclosed in the financial statements than does U.S. GAAP. The following principal items are generally not required to be disclosed: (1) segment information; (2) prior

to the adoption of CVM Instruction No. 371, information concerning the composition of pension plan costs and the plan's situation; (3) reconciliation of the statutory tax rate to the effective tax rate; and (4) footnote disclosure of summarized financial statements of affiliated companies which meet certain tests of significance. Additionally, certain income statement line items are presented differently.

Brazilian GAAP requires a greater level of disclosure than U.S. GAAP for investments in subsidiaries.

Related Parties

Under Brazilian GAAP, related parties are generally defined in a more limited manner and transactions with related parties require fewer disclosures than under U.S. GAAP. As a result, many of the disclosures required under U.S. GAAP are not required under Brazilian GAAP.

Debt Restructuring

Under Brazilian GAAP, restructured loans are not distinguished from normal financing activities.

Under U.S. GAAP, certain effects of the restructuring of debt are accounted for prospectively, the carrying amount of the loan is changed, and a gain or loss recognized if the future cash flows are not substantially similar to those under the old loan agreement.

Troubled debt restructurings are accounted for according to the type of restructuring. Gains or losses resulting from the full settlement of a debt in exchange of a transfer of assets other than cash or grant of equity interest are recognized immediately in income. A debtor that issues or otherwise grants an equity interest to a creditor to settle fully a payable accounts for the equity interest at its fair value. The difference between the fair value of the equity interest granted and the carrying amount of the payable settled is recognized as a gain on restructuring of payables. A debtor in a troubled debt restructuring involving only modifications of terms of a payable accounts for the effects of the restructuring prospectively from the time of restructuring and does not charge the carrying amount of the payable at the time of the restructuring unless the carrying amount exceeds the total future cash payment specified by the new terms. An exchange of debt instruments or change in debt's terms and conditions that is considered substantially different should be treated as an extinguishment of debt; if a change in the terms and conditions of the debt is not considered to be substantially different, the effects from the changes are recognized prospectively as a non-trouble debt restructuring. Substantially different is considered to be a difference of more than 10% between the cash flows resulting from original terms or debt agreement and the cash flows resulting from the new terms or debt agreement.

Extraordinary Items

Under Brazilian GAAP, extraordinary items may be disclosed separately in the income statement, but normally gross of the income tax effect.

Under U.S. GAAP, extraordinary items (i.e., items of unusual nature and infrequent occurrence) are disclosed separately in the income statement, net of the income tax effect, if applicable. Extraordinary items are defined under U.S. GAAP very narrowly.

Segment Information

Under Brazilian GAAP, there is no requirement for financial reporting for segments.

Under U.S. GAAP, SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information," requires public companies to report both financial and descriptive information about its reportable operating segments. Reportable operating segments are defined as those about which separate financial information is available and is regularly evaluated by the chief decision maker. Generally, financial information to be reported will be on the basis used internally for evaluating segment performance. Financial information to be disclosed includes segment profit or loss, certain specific revenue and expense items and segment assets as well as a reconciliation of total segment revenues, profit or loss and assets to the corresponding amounts in the financial statements.

Right of Offset

Brazilian GAAP permits the offsetting of amounts due or payable among parties for the purposes of presenting balances in the financial statements based on management's expectation of being able to offset the amounts. Under U.S. GAAP, the conditions to be met require the parties to agree to the offset and the legal right of offset to exist.

Business Combinations and Purchase Accounting

Under Brazilian GAAP, business combinations are not specifically addressed by accounting pronouncements. Application of the purchase method is based on book values. Goodwill or negative goodwill recorded on the acquisition of a company is computed by the difference between the cost of acquisition and the underlying book value of the acquiree and classified as described below under “—Goodwill.”

SFAS No. 141, Business Combination requires, among other things, that all business combinations, except those involving entities under common control, be accounted for by the purchase method. The combination of entities under common control is accounted for in a manner similar to a pooling of interest. Under this method, the recorded assets and liabilities of the separate enterprises generally become the recorded assets and liabilities of the combined enterprise. Additionally, the combined enterprise records as capital the capital stock and capital in excess of par or stated value of outstanding stock of the separate enterprises. Similarly, retained earnings or deficits of the separate enterprises are combined and recognized as retained earnings or deficits of the combined enterprise. Any assets or liabilities exchanged to effect the transfer are accounted for as a capital dividend to, or capital contribution by, the transferor. Under the pooling of interest method, the financial statements of the combined enterprise for periods prior to the combination are restated to present the previously separate enterprises as if they had always been combined.

The purchase method is applicable for a business combination in which one company acquires an unrelated company. Under SFAS No. 141, the acquiring company records at its cost the assets acquired less liabilities assumed. The acquired company's assets and liabilities are adjusted to give effect to their fair market value. Under SFAS No. 141, specific guidelines are provided as to the recognition of separate identifiable intangible assets before allocating any excess of the purchase price over the fair value of the net assets being acquired to goodwill. Under the purchase method, the financial statements of the acquiring company for periods prior to the acquisition are not restated. SFAS No. 141 requires in footnote disclosure the presentation of pro forma results of operations for the current and comparative periods for business combinations accounted for as purchases.

Goodwill

Under Brazilian GAAP, the excess of cost over the net book value of an acquired company is recorded as goodwill of one of the following types: step-up basis of the assets, future profitability and other types.

Such types should be amortized as follows:

- *Step-up basis of the assets:* goodwill or negative goodwill should be amortized proportionally to the corresponding asset realization in the acquired entity;
- *Future profitability:* goodwill or negative goodwill should be amortized during the time expected results are achieved. In this case, the amortization period should not exceed ten years; and
- *Other types:* goodwill or negative goodwill should be recognized in income immediately.

For tax purposes, the minimum amortization period accepted is 5 years, regardless of how the goodwill is classified.

Under SFAS No. 142, “Goodwill and Other Intangible Assets,” goodwill and other intangible assets with indefinite lives are not amortized. Under SFAS No. 142, the amount of goodwill is evaluated for impairment at least annually, and in the case of impairment, its value is adjusted accordingly. Under SFAS No. 141, the excess of fair value of net assets acquired over the purchase price, referred to as negative goodwill, is applied to reduce the non-current assets until they were reduced to zero. If any negative goodwill remains after reducing non-current assets, it is recognized as an extraordinary gain in the statement of operations.

Cash and Cash Equivalents

Under U.S. GAAP, cash equivalents are defined as short term (less than 3 months), highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Generally, only investments with original maturities of three months or less qualify under that definition held for the purposes of meeting short-term cash commitments rather than for investment or other purposes.

Under Brazilian GAAP, cash equivalents are not defined or presented in the same context as U.S. GAAP.

Consolidation

Under Brazilian GAAP, pursuant to CVM Instruction No. 247 of March 27, 1996, as amended, the financial statements of publicly traded companies should consolidate the following entities: (a) entities in which such entities have voting rights that provide them with the ability to have the majority on social decisions and to elect the majority of the members of both the administrative council and the board of directors; (b) overseas branches; and (c) companies under common control or controlled by shareholders' agreements irrespective of the participation in voting stock joint ventures (including investees in which a company exerts significant influence through its participation in a shareholders' agreement in which such group controls the investee) are to be accounted for under the proportional consolidation method. If the parent company is registered with the CVM, the subsidiary companies must be consolidated for purposes of preparing the consolidated financial statements of the parent company if their aggregate book values exceed 30% of stockholders' equity of the parent company, if the parent company has control over management decisions of any single affiliate or if the investee is financially dependent on the parent company. Brazilian GAAP establishes certain factors that are indicative of the fact that a company exerts significant influence.

Under U.S. GAAP, except as noted in the section below, the usual condition for consolidation is the ownership of a majority voting interest. Therefore, as a general rule, the condition for consolidation is the ownership by one company, directly or indirectly, of over 50% of the outstanding voting shares of another company. Joint ventures are usually accounted for following the equity method of accounting and "variable interest entities" consolidation is defined by FASB Interpretation, or FIN, No. 46, "Consolidation of Variable Interest Entities—An Interpretation of APB No. 51."

Consolidation of Variable Interest Entities

Special purpose entities, or SPEs, are defined as legal entities structured for a particular purpose. FASB's Interpretation No. 46, "Consolidation of Variable Interest Entities, an Interpretation of ARB 51" ("FIN 46"), as revised and interpreted by FASB's Interpretation No. 46 (revised) ("FIN 46R"), provides a framework for identifying variable interest entities ("VIEs") and determining when a company should include the assets, liabilities, non-controlling interests and results of activities of a VIE in its consolidated financial statements. FIN 46R exempts from its scope many—but not all—businesses, as that term is defined in FIN 46. A business—assuming it is exempt from the scope of FIN 46R—should be consolidated with its accounting parent (if it has one) only when required by longstanding, conventional consolidation guidance, most notably Accounting Research Bulletin No. 51, "Consolidated Financial Statements" (ARB 51). An entity whose primary activity is asset-backed financing or that acts as a single-lessee leasing entity cannot qualify for the scope exemption in FIN 46R, even if it would otherwise be a business. If such an entity is a VIE, it is covered by FIN 46R's consolidation requirements.

Under Brazilian GAAP the consolidated financial statements of listed companies should include special purpose entities – SPE, when their relationship with the company indicates essentially that those entities' activities are directly or indirectly, individually or in aggregate, controlled by the company.

The control indications of an SPE's activities is considered when such activities are conducted in name of the company or substantially for the purpose of meeting its specific operating needs, provided that the company, alternately, directly or indirectly:

- has decision-making power or sufficient rights to obtain the majority of benefits resulting from the SPE's activities and is, therefore, subject to risks arising from such activities; or
- is exposed to most risks related to the SPE's property or assets.

The company which has sufficient rights to obtain relevant benefits from the SPE's activities or is exposed to relevant risks related to the SPE's activities or assets, without being in conformity with the provisions aforementioned, is required to disclose in a explanatory note the following information:

- the nature, purpose and activities of the SPE;
- the nature of its involvement with the SPE;
- the kind of exposure to losses resulting from the involvement with the SPE;
- the identification of the main beneficiary or group of main beneficiaries of the SPE's activities; and
- the information required in article 20 of CVM Instruction 247/1996, where applicable.

Equity Method of Accounting

Under Brazilian GAAP, a company is required to record an original investment in the equity of another entity at cost which is thereafter periodically adjusted to recognize the investor's share of changes in the investee's shareholders' equity after the date of original investment. A Brazilian parent company is required to use the equity method of accounting to record investments in its subsidiaries (any company that is controlled by the parent company) and its affiliates (any company in which the parent company owns at least 10% of the issued share capital without controlling it) over whose management it exerts influence or in which it owns 20% or more of the capital, if the aggregate book value of all such investments is equal to or greater than 15% of the shareholders' equity of the parent company or, if the book value of an investment in any single subsidiary or affiliate is equal to or greater than 10% of the shareholders' equity of the parent company.

Under U.S. GAAP, the equity method of accounting is used (1) for investments, based on U.S. GAAP underlying financial statements, in which the parent company has a 20% to 50% ownership interest and exerts significant influence over the operations of the investee, and (2) for investments in joint ventures in which no party has control.

Investments in which the parent company has less than 20% ownership interest are generally carried at cost adjusted for other than temporary impairments in value, except for securities accounted for under SFAS No. 115.

Foreign Currency Translation

Under Brazilian GAAP, the financial statements of subsidiaries are translated using the current exchange rate. Financial statements presented in weak currencies are adjusted for the effects of inflation prior to translation. Translation gains and losses are recognized in the income statement.

Under U.S. GAAP, SFAS No. 52, "Foreign Currency Translation," requires that the translation of foreign currency financial statements be made using the current exchange rate, except for enterprises operating in highly inflationary environments (a cumulative inflation rate of approximately 100% or more over a three-year period) or an enterprise deemed to be an extension of its parent company (in these cases the functional currency is considered to be the reporting currency). Translation gains and losses are reported as a separate component of shareholders' equity, except those relating to financial statements of enterprises operating in highly inflationary environments, which are recognized in the income statement.

Under Brazilian GAAP, (1) Provisional Measure No. 3/01, as amended and converted into Law No. 10,305/01, (2) CVM Deliberation No. 404/01, as amended by CVM Deliberation No. 409/01, (3) Provisional Measure No. 1,818/99, as amended and converted into Law No. 9,816/99, and (4) CVM Deliberation No. 294/1999, as amended, allowed net losses arising from exchange rate changes in the first quarter of 1999 and in the year 2001 to be deferred.

Brazilian GAAP and U.S. GAAP require the recognition in the income statement of the effects of exchange rate changes during the period in which they occurred.

Employees Termination Costs in Restructuring Plan

Under Brazilian GAAP, a provision is made for estimated employee termination costs arising from the decision to restructure industrial and administrative operations.

Under SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities," a liability for a cost associated with an exit or disposal activity should be recognized and measured initially at its fair value in the period in which the liability is incurred, except for a liability for one-time termination benefits that is incurred over time. A

liability for a cost associated with an exit or disposal activity is incurred when the definition of a liability is met in accordance with paragraph 35 of FASB Concepts Statement No. 6, “Elements of Financial Statements.” In the unusual circumstance in which fair value cannot be reasonably estimated, the liability should be recognized initially in the period in which fair value can be reasonably estimated. In the case of a liability for one-time benefits that is incurred over time, a liability for the termination benefits should be measured initially at the communication date of the termination plan based on the fair value of the liability as of the termination date. A change resulting from a revision to either the timing or the amount of estimated cash flows over the future service period should be measured using the credit-adjusted risk-free rate that was used to measure the liability initially. The cumulative effect of the change should be recognized as an adjustment to the liability in the period of the change.

Option to Prepay Debt/Classification

Under Brazilian GAAP, debts are classified according to their final maturity regardless of the existence of rights to prior redemption.

Under U.S. GAAP, debts subject to redemption prior to maturity at the option of the holders thereof must be classified according to the date the redemption right is exercisable.

Classification of Statement of Operations

Under Brazilian GAAP, financial income and expenses and equity in earnings of investees are normally included in operating profit.

Under U.S. GAAP, financial income and expenses and equity in earnings of investees are excluded from operating profit.

Transfer of Financial Assets

Under Brazilian GAAP, no specific pronouncement addresses the accounting for transfers of financial assets.

Under U.S. GAAP, SFAS No. 140, “Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities,” provides a consistent application of a financial-components approach that focuses on control to account for transfers of financial assets. Under that approach, after a transfer of financial assets, an entity recognizes the financial and servicing assets it controls and the liabilities it has incurred, but does not recognize financial assets when control has been surrendered and does not recognize liabilities when extinguished. SFAS No. 140 provides standards for distinguishing, from an accounting perspective, transfers of financial assets that are sales from transfers that are secured borrowings.

A transfer of financial assets in which the transferor surrenders control over those assets is accounted for as a sale to the extent that consideration is received in exchange. Under SFAS No. 140, the transferor is considered to have surrendered control over transferred assets if and only if all of the following conditions are met:

- the transferred assets have been isolated from the transferor—put presumptively beyond the reach of the transferor and its creditors, even in bankruptcy or other receivership;
- each transferee (or, if the transferee is a qualifying SPE, each holder of its beneficial interests) has the right to pledge or exchange the assets (or beneficial interests) it received, and no condition both constrains the transferee (or holder) from taking advantage of its right to pledge or exchange and provides more than a trivial benefit to the transferor; and
- the transferor does not maintain effective control over the transferred assets through either: (1) an agreement that both entitles and obligates the transferor to repurchase or redeem them before their maturity; or (2) the ability to unilaterally cause the holder to return specific assets, other than through a clean-up call.

Under SFAS No. 140, liabilities and derivatives incurred or obtained by transferors as part of a transfer of financial assets are initially measured at fair value, if practicable. SFAS No. 140 also requires that servicing assets and other retained interests in the transferred assets be measured by allocating the previous carrying amount between the assets sold, if any, and retained interests, if any, based on their relative fair values at the date of the transfer. This Statement also requires that: (i) servicing assets and liabilities be subsequently measured by (a) amortization in proportion to and over

the period of estimated net servicing income or loss and (b) assessment for asset impairment or increased obligation based on their fair values; and (ii) a liability be derecognized if and only if either (a) the debtor pays the creditor and is relieved of its obligation for the liability or (b) the debtor is legally released from being the primary obligor under the liability either judicially or by the creditor. Therefore, a liability is not considered extinguished by an in substance defeasance.

Treasury Stock

Under Brazilian GAAP, the acquisition of treasury stock is accounted for by reducing capital by its nominal amount and both the excess or the shortfall compared to par is taken against reserves.

Under U.S. GAAP, both the cost method and par value method of accounting for treasury stock are acceptable. Under the cost method, each acquisition is accounted for at cost. Under the par value method, the treasury stock account is increased by only the par value of each share, with any excess being offset firstly against any additional paid in capital that arose on the issue of the shares, with any remaining excess being set off against reserves. Any excess of par value over purchase price paid in is credited to paid in capital from treasury stock.

Guarantees

Under Brazilian GAAP, no specific pronouncement addresses the accounting and disclosures requirements for guarantees.

FASB's Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" ("FIN 45"), requires certain disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under certain guarantees that it has issued. It also requires a guarantor to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee.

ANNEX B—GLOSSARY OF TERMS

Assured Energy: Amount of energy that generators are permitted to sell under long-term contracts.

Basic Network: Interconnected transmission lines, dams, energy transformers and equipment with voltage equal to or higher than 230 kV, or installations with lower voltage as determined by ANEEL.

CDI: A Brazilian interbank rate (*Certificado de Depósito Interbancário*).

Distribution: Electric network system that distributes energy to final customers within a concession area.

Final customer or end user: A party that uses electricity for its own needs.

Free customer: Customers that have opted out or are not part of the regulated market.

Gigawatt (GW): One billion Watts.

Gigawatt hour (GWh): One gigawatt of power supplied or demanded for one hour, or one billion Watt hours.

High voltage: A class of nominal system voltages equal to or greater than 100 kV and less than 230 kV.

Hydroelectric plant or Hydroelectric facility: A generating unit that uses water power to drive the electric generator.

Installed capacity: The level of electricity which can be delivered from a particular generating unit on a full-load continuous basis under specified conditions as designated by the manufacturer.

Interconnected system: Systems or networks for the transmission of energy, connected together by means of one or more links (lines and/or transformers).

Independent power producer: A legal entity or consortium holding a concession or authorization for power generation for sale for its own account to public utility concessionaires or free customers.

Itaipu: Itaipu Binacional, a hydroelectric facility owned by Brazil and Paraguay in equal shares.

Kilovolt (kV): One thousand volts.

Kilovolt-amperes (kVA): One thousand volt-amperes.

Kilowatt (kW): One thousand Watts.

Kilowatt hour (kWh): One kilowatt of power supplied or demanded for one hour, or one thousand Watt hours.

Megawatt (MW): One million Watts.

Megawatt hour (MWh): One megawatt of power supplied or demanded for one hour, or one million Watt hours.

MVA: One thousand kilovolt Amperes.

PCH: Small hydroelectric power plant with installed capacity of 1 MW to 30 MW.

Rationing Program: The Brazilian government-mandated program to reduce electricity consumption from June 1, 2001 to February 28, 2002 as a result of poor hydrological conditions that threatened the country's electricity supply.

Substation: An assemblage of equipment that switches and/or changes or regulates the voltage of electricity in a transmission and distribution system.

Thermoelectric plant: A generating unit which uses combustible fuel, such as coal, oil, diesel, natural gas or other hydrocarbon as a source of energy to drive the electricity generator.

Transmission: The bulk transfer of electricity from generating facilities to the distribution system at load center station in which the electricity is stabilized by means of the transmission grid (in lines with capacity between 230 kV and 525 kV).

Volt: The basic unit of electric force analogous to water pressure in pounds per square inch.

Watt: The basic unit of electricity.

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